26 February 2024
Company Update| Sector: Cement

JK Cement

BSE SENSEX	S&P CNX
73,282	22,252

Bloomberg	JKCE IN
Equity Shares (m)	77
M.Cap.(INRb)/(USDb)	339.7 / 4.1
52-Week Range (INR)	4565 / 2708
1, 6, 12 Rel. Per (%)	2/24/31
12M Avg Val (INR M)	431

Financials &Valuations (INR b)

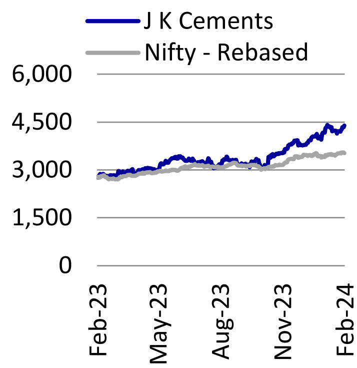
Y/E MARCH	FY24E	FY25E	FY26E
Net Sales	115.7	128.7	142.3
EBITDA	21.2	24.3	27.3
PAT	8.4	10.0	12.5
EPS (INR)	108.9	129.8	161.3
GR. (%)	97.3	19.2	24.2
BV/Sh (INR)	695.7	800.6	931.8
Ratios			
ROE (%)	16.8	17.4	18.6
RoCE (%)	11.2	11.4	11.9
Valuations			
P/E (X)	39.5	33.2	26.7
P/BV (X)	6.2	5.4	4.6
EV/EBITDA (X)	17.4	15.3	13.2
EV/EBITDA	177	159	144
Div Yield (%)	0.5	0.6	0.7

Shareholding pattern (%)

As On	Dec-23	Sep-23	Dec-22
Promoter	45.7	45.8	45.8
DII	24.1	24.3	21.9
FII	15.2	14.4	15.9
Others	15.0	15.5	16.4

FII Includes depository receipts

Stock Performance (1-year)



CMP: INR4,396 TP: INR5,050 (+15%) Buy

Superior execution; growth plans to continue

Regional mix and cost benefits better than peers

- JK Cement (JKCE) has once again demonstrated superior execution capabilities after the commissioning of its new plant at Panna, Madhya Pradesh (MP). The company achieved a capacity utilization of ~90% within one year of commissioning, which helped the company deliver higher-than-industry volume growth.
- JKCE has further plans to expand the capacity at Panna. Along with the 3QFY24 results, the management announced a clinker capacity expansion (10,000tpd or 3mtpa) at Panna and associated grinding units in the Central region and Bihar (cumulative capacity: 6mtpa). We believe that JKCE has the potential to reach 50mtpa+ capacity in the long run, as it follows a disciplined expansion approach.
- We believe the company has a better regional mix and cost benefits vs. its peers (in terms of similar-sized capacities). About 83% of the company's installed cement capacity is located in the most favorable regions (in terms of demand-supply and consolidation), viz., North, Central, and Gujarat. The share of modern kilns has increased to 81%+, leading to lower energy consumption. Further, higher green energy/alternative fuel share, at ~50%/15%, helps the company reduce opex and carbon emissions.
- We upgraded our EBITDA estimates by 6%/7% for FY25/26 in our recently released quarterly result update (Link). The stock currently trades at 15x/ 13x FY25E/FY26E EV/EBITDA (vs. its five-year average one-year forward EV/EBITDA of 13x). Considering JKCE's long-term and well-planned growth strategy, higher capacity utilization, as well as improving regional mix, we have raised our target multiple to 15x FY26E EV/EBITDA (earlier 14x) to arrive at **our revised TP of INR5,050 (vs. INR4,700). We reiterate our BUY rating on the stock.**

Superior execution and marketing strategies lead to higher volume growth

- JKCE has surprised through its exceptional project executions and marketing strategies. Earlier, despite the Covid-19 headwinds, the company successfully commissioned Nimbahera, Rajasthan, Phase – I expansion, and ramped up capacity utilization to above 90% within a year. This led the company to deliver ~12% volume CAGR (grey cement) over FY19-22 vs. ~2% for the industry, and ~3% for our coverage universe.
- JKCE yet again surprised by commissioning its greenfield integrated cement plant at Panna, MP, within 18 months, and ramping up capacity utilization up to ~90% within one year. This was supported by the company's effective marketing strategies. It expanded its dealership network and through robust marketing campaigns tapped into newer markets in the central region.

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- Recently, the company commissioned a greenfield grinding unit at Ujjain, MP, with a capacity of 1.5mtpa. Apart from that, it is setting up a greenfield grinding unit at Prayagraj, UP, with a capacity of 2mtpa, and it is likely to be commissioned in 2HFY25. Post-completion of this expansion, the company's grey cement capacity will increase to 24.2mtpa. We estimate JKCE to clock ~14% volume (grey cement) CAGR over FY23-26, higher than the industry volume growth.
- As expected, the company announced its plans to increase capacities in the Central region and Bihar along with 3QFY24 results. It plans to set up another clinker line of 10,000tpd (3.3mtpa) in Panna, along with grinding units of 6mtpa spread across UP, MP, and Bihar. The management had earlier indicated that the company could set up five clinker lines at Panna. Apart from that, it has limestone reserves in Jaisalmer, Rajasthan, which will be part of its long-term expansion plans. The company also has expansion opportunities in the South region. We believe that JKCE has the potential to reach 50mtpa+ capacity in the long run, as it follows a disciplined expansion approach.

Profitability improvement led by better regional mix and cost efficiencies

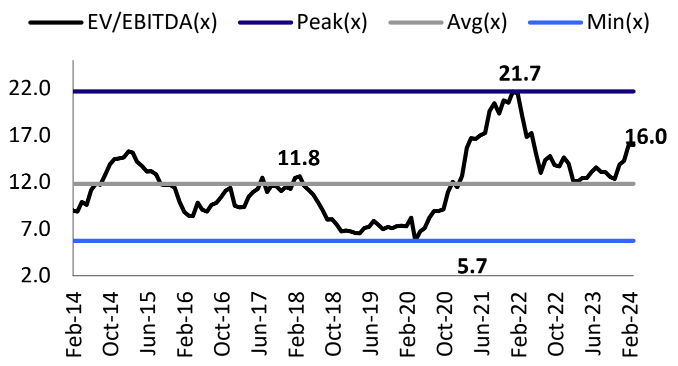
- With recent capacity expansions in Central India, the company's market mix has improved, with 80%+ grey cement capacity located in the most favorable regions (in terms of demand-supply and consolidation), viz., North, Central and Gujarat. In its recent expansion in Central India, the share of split location grinding units stood at ~80%, which we believe would drive higher net plant realization.
- Further, the company's new kilns are more efficient than the old kilns, leading to lower energy consumption. The company's share of modern kilns stood at 81%+. The company invested heavily in green energy (both WHRS and other renewable sources). The company's green energy share has increased to ~50% in FY24YTD from ~44% in FY23. It plans to further raise green power share to ~75% by FY30.
- Moreover, the company is using alternative fuels (AFR) in its kilns, including agro-waste, plastic waste, liquid mixed waste, RDF/municipal waste, and solid mixed waste, to partially substitute fossil fuels. Its thermal substitution rate (TSR) has increased to 14.6% in FY24YTD, and it targets this to increase to 35% by FY30. The company aims to increase the blended cement share to ~80% by FY30 from ~69% currently. The higher share of blended cement, green power, and AFR helps the company reduce cost as well as carbon emissions. Its specific net scope 1 emission is reduced by ~10% to 520 Kg/t of cementitious material from the base year (FY20). JKCE aims to further reduce the scope 1 emission by ~11% to 465 Kg/t of cementitious material by FY30 from base year (FY23).

Positive outlook; reiterate BUY

- We estimate JKCE's consol. revenue/EBITDA CAGR at 14%/28% over FY23-26, driven by higher sales volume, improvements in realization, and cost savings. We further estimate JKCE's consol. volume/realization to report 13%/1% CAGR over FY23-26, while OPM is likely to improve to 18-19% over FY24-FY26 vs. 13.5% in FY23 (17.7% in 9MFY24). We estimate JKCE's EBITDA/t at INR1,110/ INR1,150/INR1,170 in FY24/FY25/FY26 vs. INR810 in FY23 (average EBITDA/t was at INR1,040 over FY18-22). PAT is estimated to register 43% CAGR over FY23-26, aided by an improvement in profitability.

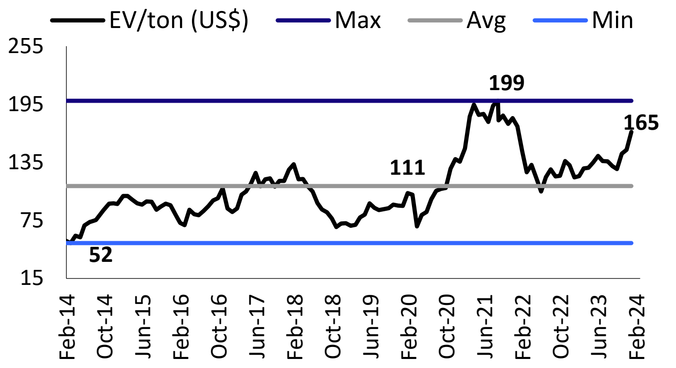
- JKCE's net debt has increased in the past few years due to higher capex. Over FY21-23, the company's cumulative OCF stood at INR36b, while the cumulative capex stood at INR39b. This has led to an increase in its net debt to INR33b in FY23 vs. INR16b in FY21.
- We estimate JKCE to generate a cumulative OCF of INR55b over FY24-26E, and its cumulative capex would be INR46b over the same period. Given the company's expansion plans, we believe its net debt will peak out in FY25E (net debt is estimated to rise to INR44b by FY25 from INR30b as of Dec'23). Further, we estimate its RoE/RoCE to improve to 19%/12% in FY26 from 9.5%/8.0% in FY23, supported by higher margins and a higher asset turnover ratio.
- JKCE trades at 15x/13x FY25E/FY26E EV/EBITDA and an EV/t of USD160/ USD145 FY25E/26E. Considering JKCE's long-term and well-planned growth strategy, higher capacity utilization, as well as improving regional mix, we have raised our target multiple to 15x FY26E EV/EBITDA (earlier 14x) to arrive at **our revised TP of INR5,050 (vs. INR4,700). Reiterate BUY.**

Exhibit 1: One-year forward EV/EBITDA (x) trend



Sources: MOFSL, Company

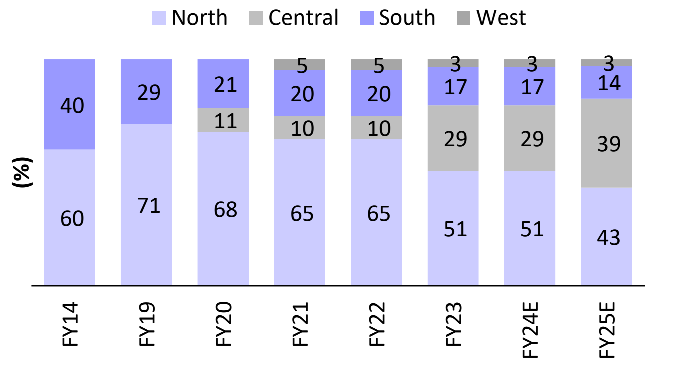
Exhibit 2: One-year forward EV/t (USD) trend



Sources: MOFSL, Company

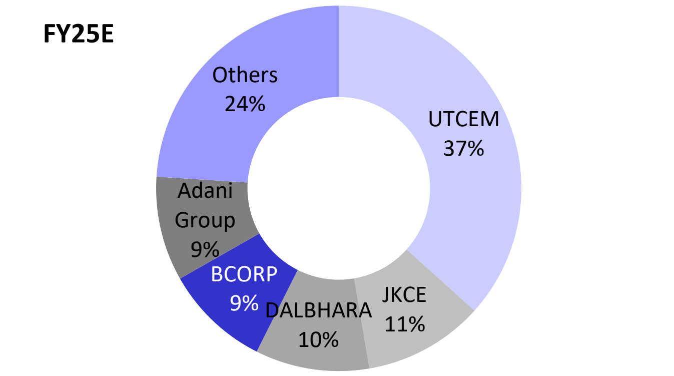
Story in charts

Exhibit 3: Central India's expansion to improve regional mix



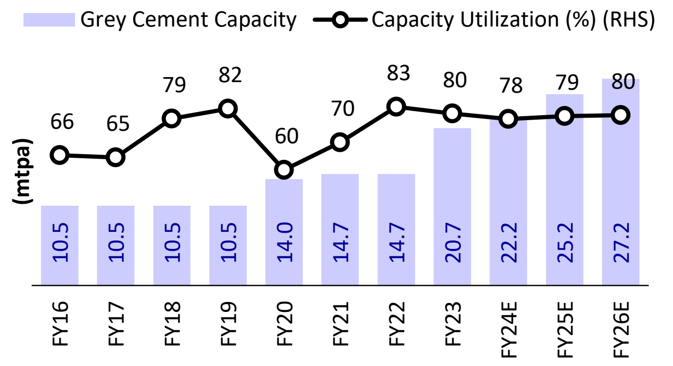
Sources: MOFSL, Company

Exhibit 4: Capacity share of leading players in Central India



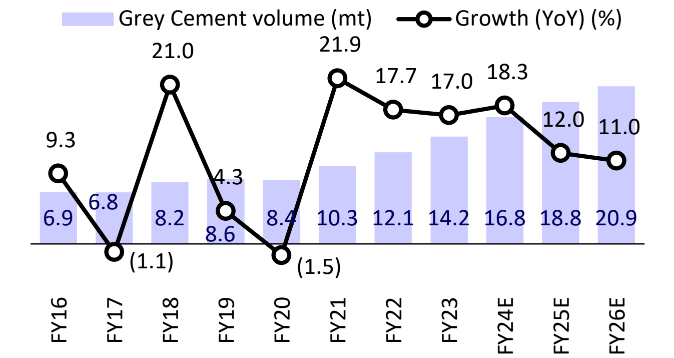
Sources: MOFSL, Company; Note: acquisition of JPA cement asset by DALBHARA in central India is under process and estimate to be completed in FY24-25

Exhibit 5: Estimated capacity utilization at optimum level



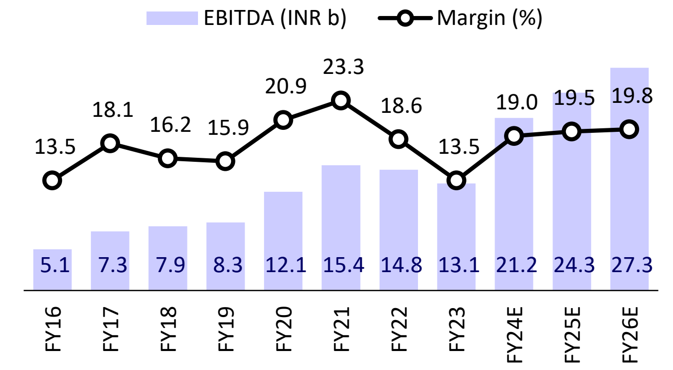
Sources: MOFSL, Company,

Exhibit 6: Grey cement volume CAGR of ~14% over FY23-26E



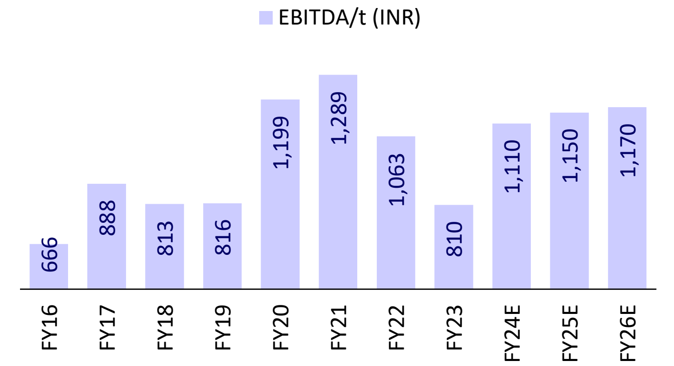
Sources: MOFSL, Company

Exhibit 7: Estimate ~28% consol. EBITDA CAGR over FY23-26



Sources: Company, MOFSL, Note: Consolidated EBITDA

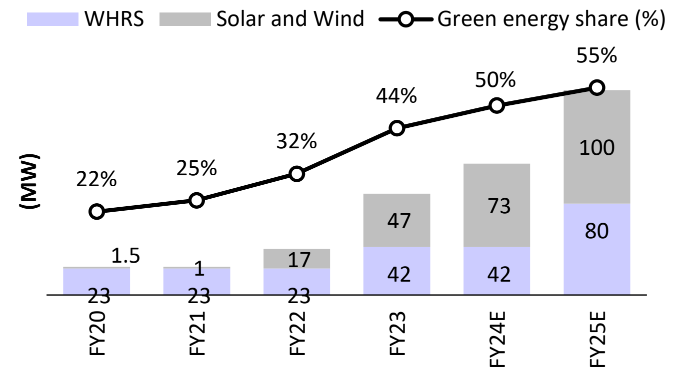
Exhibit 8: Estimate consol. EBITDA/t to rise over FY24-26



Sources: Company, MOFSL, Note: Consolidated EBITDA/t

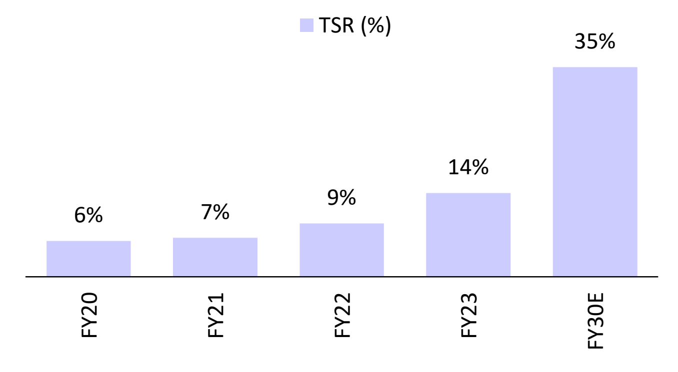
Story in charts

Exhibit 9: JKCE's green power share improving



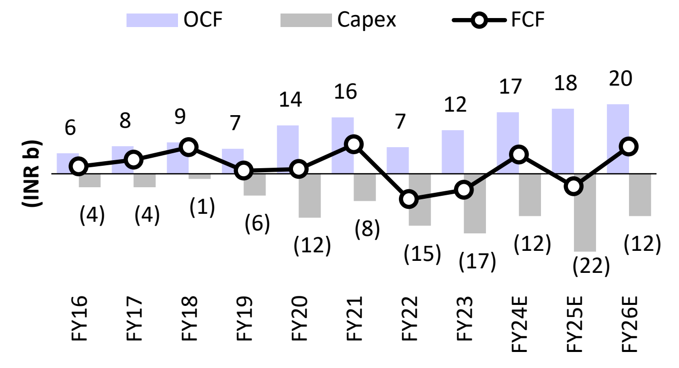
Sources: MOFSL, Company

Exhibit 10: Targets to achieve a TSR of 35% by FY30



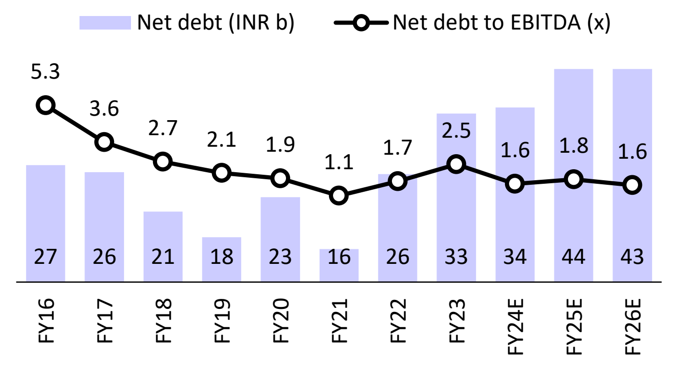
Sources: MOFSL, Company

Exhibit 11: OCF to improve, will support expansion plans



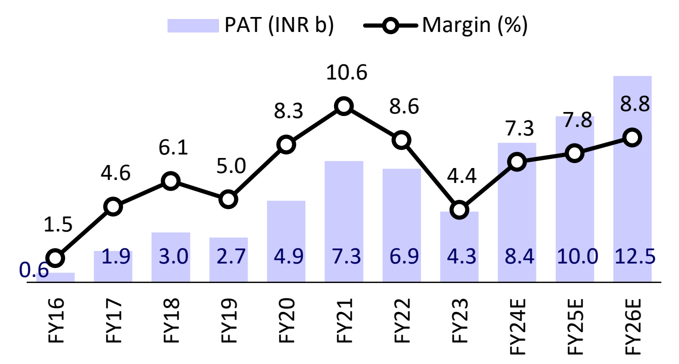
Sources: MOFSL, Company

Exhibit 12: Net debt is estimated to peak out in FY25



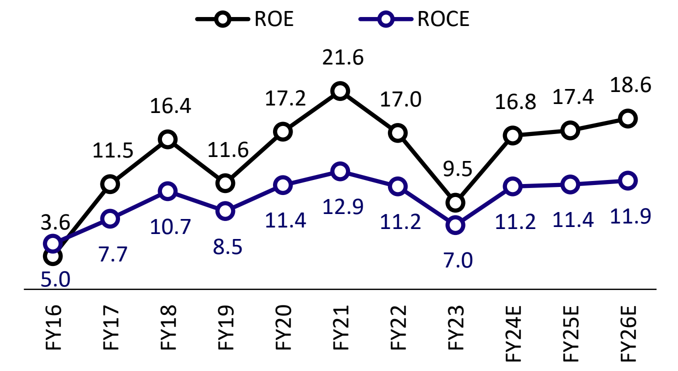
Sources: MOFSL, Company

Exhibit 13: PAT margin to increase



Sources: MOFSL, Company

Exhibit 14: Estimate return ratios to improve



Sources: MOFSL, Company

Financials and Valuation

Income Statement (INR m)

Y/E March	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Net Sales	**58,016**	**66,061**	**79,908**	**97,202**	**1,15,733**	**1,28,747**	**1,42,320**
change%	10.3	13.9	21.0	21.6	19.1	11.2	10.5
Gross Profit	**38,361**	**43,699**	**50,510**	**55,639**	**75,004**	**84,492**	**94,296**
Gross margin%	66.1	66.1	63.2	57.2	64.8	65.6	66.3
Total Expense	45,882	50,674	65,084	84,059	94,565	1,04,494	1,15,000
EBITDA	**12,134**	**15,387**	**14,824**	**13,143**	**21,168**	**24,253**	**27,320**
EBITDA Margin%	20.9	23.3	18.6	13.5	18.3	18.8	19.2
Depreciation	2,880	3,062	3,425	4,582	5,579	6,052	6,301
EBIT	9,255	12,325	11,399	8,561	15,589	18,202	21,018
Interest and finance charge	2,764	2,528	2,697	3,122	4,568	4,414	3,663
other income	853	1,130	1,429	874	1,350	1,323	1,418
PBT Before EO	**7,344**	**10,927**	**10,131**	**6,313**	**12,371**	**15,110**	**18,773**
PBT after EO	**7,344**	**10,927**	**10,131**	**6,313**	**12,371**	**15,110**	**18,773**
Total Tax	2,511	3,896	3,337	2,122	3,959	5,079	6,311
Tax Rate%	34.2	35.7	32.9	33.6	32.0	33.6	33.6
Minority Interest	(90)	(66)	(77)	(72)	(24)	-	-
Reported PAT	**4,924**	**7,097**	**6,871**	**4,263**	**8,436**	**10,031**	**12,463**
Adjusted PAT	**4,924**	**7,317**	**6,871**	**4,263**	**8,436**	**10,031**	**12,463**
change%	82.1	48.6	(6.1)	(38.0)	97.9	18.9	24.2
margin%	8.5	11.1	8.6	4.4	7.3	7.8	8.8

E: MOFSL estimates

Balance Sheet (INR m)

Y/E March	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Equity Share Capital	773	773	773	773	773	773	773
Total Reserves	29,504	36,595	42,476	46,095	52,986	61,085	71,229
Net worth	**30,277**	**37,367**	**43,249**	**46,868**	**53,758**	**61,858**	**72,002**
Other Liability + Def Tax Liabilities	37,012	39,946	45,931	58,045	62,545	64,545	69,045
Minority Interest	(203)	(257)	(343)	(444)	(468)	(468)	(468)
Capital Employed	**67,086**	**77,057**	**88,838**	**1,04,469**	**1,15,836**	**1,25,935**	**1,40,579**
Gross Block	75,780	82,126	91,614	1,12,857	1,25,777	1,40,777	1,42,777
Less: Accum Dep	20,235	22,752	26,177	30,759	36,338	42,390	48,691
Fixed Asset (Net Block)	**55,545**	**59,374**	**65,437**	**82,097**	**89,438**	**98,387**	**94,086**
CWIP	5,295	5,093	10,321	5,920	5,000	12,000	22,000
Goodwill	-	-	-	-	-	-	-
Total Investment	**458**	**1,422**	**2,157**	**923**	**923**	**923**	**923**
Curr. Assets Loans & Advances	**24,122**	**32,831**	**36,115**	**41,552**	**48,043**	**42,166**	**50,018**
Inventory	6,904	7,566	12,087	9,821	11,611	12,707	13,110
Account Receivables	2,677	3,615	4,268	4,801	5,575	6,088	6,623
Cash and Bank	9,649	16,416	10,793	15,874	19,601	11,615	17,729
Loans and Advances	4,892	5,233	8,967	11,056	11,256	11,756	12,556
Current Liab and Provision	**18,334**	**21,663**	**25,192**	**26,024**	**27,570**	**27,541**	**26,447**
Account Payables	4,918	5,998	7,151	8,221	10,553	11,511	11,403
Other current liabilities	11,807	14,278	16,652	16,291	15,491	14,491	13,491
Provision	1,609	1,388	1,389	1,511	1,526	1,539	1,553
Net Current Assets	**5,788**	**11,167**	**10,923**	**15,528**	**20,473**	**14,625**	**23,571**
Application of Funds	**67,086**	**77,057**	**88,838**	**1,04,469**	**1,15,835**	**1,25,935**	**1,40,579**

E: MOFSL estimates

Financials and Valuation

Ratios

Y/E March	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Basic (INR)							
EPS	**62.6**	**91.0**	**88.9**	**55.2**	**108.9**	**129.8**	**161.3**
Cash EPS	99.8	130.6	133.2	114.5	181.1	208.1	242.8
Book Value	391.8	483.6	559.7	606.6	695.7	800.6	931.8
DPS	17.5	15.0	15.0	15.0	20.0	25.0	30.0
Payout (incl. div. text)	33.7	16.5	17.1	27.7	18.4	19.3	18.6
Valuation (X)							
P/E	67.6	46.9	48.4	78.1	39.5	33.2	26.7
Cash P/E	43.2	33.0	32.3	37.6	23.8	20.7	17.7
Price/ Book Value	11.0	8.9	7.7	7.1	6.2	5.4	4.6
EV/Sales	6.2	5.3	4.4	3.8	3.2	2.9	2.5
EV/EBITDA	29.4	22.8	23.9	27.9	17.4	15.3	13.2
Div Yield (%)	0.4	0.3	0.3	0.3	0.5	0.6	0.7
Profitability Ratios (%)							
ROE%	17.2	21.6	17.0	9.5	16.8	17.4	18.6
ROCE%	11.4	12.9	11.2	7.0	11.2	11.4	11.9
Turnover Ratios (%)							
Asset Turnover (x)	0.9	0.9	0.9	0.9	1.0	1.0	1.0
Debtors (No.of days)	17	20	19	18	18	17	17
Inventory (No. of days)	43	42	55	37	37	36	34
Creditors (No. of days)	31	33	33	31	33	33	29
Leverage Ratios (%)							
Net Debt/ Equity (x)	0.8	0.4	0.6	0.7	0.6	0.7	0.6

E: MOFSL estimates

Cash Flow Statement (INR m)

Y/E March	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Adj EBITDA	12,134	15,387	14,824	13,143	21,168	24,253	27,320
Non Cash Op. Exp (Inc)	64	268	1,429	874	1,350	1,323	1,418
(Inc)/Dec in Wkg Cap	2,819	1,715	(5,379)	476	(1,218)	(2,138)	(2,832)
Tax Paid	(1,530)	(1,959)	(2,429)	(1,424)	(3,959)	(5,079)	(6,311)
Other Operating Activites	179	490	(967)	(785)	-	-	-
CF. From Op Activity	**13,668**	**15,901**	**7,478**	**12,283**	**17,341**	**18,359**	**19,594**
(Inc)/Dec in FA & CWIP	(12,428)	(7,678)	(14,716)	(16,842)	(12,000)	(22,000)	(12,000)
Free Cashflows	**1,240**	**8,223**	**(7,238)**	**(4,559)**	**5,341**	**(3,641)**	**7,594**
(Pur)/ Sale of inv	(2,622)	(11,747)	(734)	1,234	-	-	-
others	6,998	11,665	2,232	(344)	-	-	-
CF. From Inv Activity	**(8,052)**	**(7,760)**	**(13,218)**	**(15,952)**	**(12,000)**	**(22,000)**	**(12,000)**
(Inc)/ Dec in net worth	-	-	-	-	-	-	-
(Inc)/dec in Debt	3,133	1,120	4,532	11,402	4,500	2,000	4,500
Interest Paid	(2,507)	(2,427)	(2,697)	(3,122)	(4,568)	(4,414)	(3,663)
Dividend Paid (Incl.tax)	(1,630)	-	(1,159)	(1,159)	(1,545)	(1,932)	(2,318)
CF. From Fin Activity	**(1,081)**	**(1,375)**	**117**	**8,158**	**(1,614)**	**(4,345)**	**(1,481)**
(Inc)/dec in cash	**4,534**	**6,767**	**(5,623)**	**4,489**	**3,727**	**(7,986)**	**6,113**
Add: Opening Balance	5,116	9,650	16,416	11,385	15,874	19,601	11,615
Closing Balance	**9,650**	**16,416**	**10,793**	**15,874**	**19,601**	**11,615**	**17,729**

E: MOFSL estimates

NOTES

Explanation of Investment Rating	
Investment Rating	**Expected return (over 12-month)**
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

*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall be within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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