

15 May 2024

India | Equity Research | Q4FY24 results review

JK Cement

Cement

Best placed cement mid-cap stock

JK Cement's (JKCE) Q4FY24 EBITDA (of INR 5.48bn, up 51% YoY but down 10% QoQ) stood broadly in line with estimates as sustained drop in variable cost helped offset the operating leverage disappointment (of fixed cost being flat QoQ). While the overhang of underlying weakness in cement prices is driving a 14%/8% cut in our FY25/26E EBITDA, JKCE remains a favourably placed mid-cap cement stock given – a) steady capex offering sustained volume growth visibility; b) scope of ~INR 150-200/t cost efficiency enhancement (as per the management); c) strong balance sheet with net debt/EBITDA of ~1.6x FY24 (and despite capex, estimated to remain <2x over FY25-FY26) and d) best-in-class RoEs of 15-16% We continue to value JKCE at 16x FY26E EV/EBITDA and maintain **BUY** with a revised TP of INR 4,620 (INR 5,131 earlier).

Variable cost efficiency offsets the impact of low operating leverage

JKCE's grey cement volumes, at 4.7mt, grew robust 13% YoY (19% for full year FY24) while realisation slipped 4.6% QoQ. White segment volume, at 416kt, slipped ~2% YoY while realisation improved 2.3% QoQ. Total revenue at INR 29.4bn (up 10% YoY) was 2% below our forecast. Also, unlike several sector peers, JKCE could not demonstrate operating leverage benefits. Its staff cost rose 33% YoY/8% QoQ (impact of variable pay in Q4FY24) and 'other expenses' increased 15% YoY/12% QoQ (owing to high marketing spends as well as cost for technology upgradation). Yet, the EBITDA stood 2% ahead as variable cost/t eased 11% YoY/2% QoQ owing to benefits of low fuel cost, improved efficiency and reduction in lead distance. Despite a loss of ~INR 60mn from paints business, blended EBITDA/t at INR 1,075 stood ~4% ahead of estimates (up 35% YoY but down 19% QoQ). Blended EBITDA/t for full year FY24 stood at INR 1,079 (up 33% YoY) and on revised estimates, we peg it to INR 1,091 for FY25E and INR 1,142 for FY26E.

Quality deserves a premium; maintain BUY

We value JKCE at 16x FY26E EV/EBITDA (at par with industry leader UltraTech Cement) given – 1) its sustained industry superior RoE of 15-16% over FY24-FY26E; 2) 6mtpa expansion being pursued at a lucrative USD 57/t and on track to complete by Q2FY26; 3) strong balance sheet with net debt/EBITDA slated to remain <2x despite capex and 4) JKCE's resolve to prune cost further by INR 150-200/t over FY25-26. Maintain **BUY** with a revised TP of INR 4,620.

Financial Summary

Y/E March (INR mn)	FY23A	FY24P	FY25E	FY26E
Net Revenue	97,202	1,15,560	1,20,634	1,32,595
EBITDA	13,143	20,598	21,928	24,891
EBITDA (%)	13.5	17.8	18.2	18.8
Net Profit	4,163	7,992	8,449	9,695
EPS (INR)	53.9	103.4	109.3	125.5
EPS % Chg YoY	(38.7)	92.0	5.7	14.7
P/E (x)	72.8	37.9	35.9	31.3
EV/EBITDA (x)	25.6	16.2	15.7	14.0
RoCE (%) (post-tax)	6.4	10.0	10.0	11.0
RoE (%)	9.2	16.0	14.8	15.0

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Market Data

Market Cap (INR)	303bn
Market Cap (USD)	3,631mn
Bloomberg Code	JKCE IN
Reuters Code	JKCE.BO
52-week Range (INR)	4,575 /2,893
Free Float (%)	45.0
ADTV-3M (mn) (USD)	8.0

Price Performance (%)	3m	6m	12m
Absolute	(6.4)	14.5	28.5
Relative to Sensex	(7.9)	3.2	11.2

Earnings Revisions (%)	FY25E	FY26E
Revenue	(4.2)	(1.8)
EBITDA	(14.0)	(8.1)
EPS	(22.5)	(15.6)

Previous Reports

24-01-2024: [Q3FY24 results review](#)

08-11-2023: [Q2FY24 results review](#)

Other key highlights

- The difference between consolidated and standalone EBITDA stood at a positive INR 124mn (vs a loss of INR 140mn in Q4FY23), being the fourth straight quarter of positive EBITDA.
- JKCE now expects its UAE business to generate an annual EBITDA of ~INR 300-400mn on a sustainable basis.

Conference call takeaways

Demand/volume

- For FY25, JKCE aims ~10% YoY volume growth vs industry growth forecast of ~7%. Its volume growth will be driven by the commissioning of 2mtpa grinding unit (GU) in Prayagraj (Central India) even as it expects to grow in line with the industry in North and South India regions.
- Current demand is soft owing to the ongoing general elections and is expected to remain sluggish till the end of monsoon quarter (Q2FY25). However, JKCE expects a meaningful pick-up in H2FY25.
- In FY24, clinker utilisation stood at ~85%.
- Q4FY24 trade sales stood at 61%. Clinker ratio in FY24 was 0.66x while blended cement sales in FY24 were 67%.

Prices

- JKCE expects improvement in grey cement pricing scenario Q3FY25-onwards.
- Putty segment is witnessing intense competitive pressures (since entry of Birla Opus) which has resulted in benign putty prices.
- JKCE booked incentive income of ~INR 700mn in Q4FY24.

Cost

- JKCE has guided for cost optimisation potential of INR 150-200/t over the next two fiscals.
- Cost savings will be in areas of (1) logistics (~INR 40-50/t), (2) higher usage of green power and AFR and (3) rationalisation of fixed costs.
- Employee costs were higher in Q4FY24 owing to pay-out of profit-linked incentives and also due to the impact of the recently commissioned grinding unit in Ujjain, MP (higher wage bill).
- Fuel consumption cost in Q4FY24 stood at INR 1.79/'000kcal vs INR 1.82/'000kcal QoQ. JKCE expects marginal fuel cost savings going ahead.
- Fuel mix for Q4FY24 stood at 60% pet coke and 40% as a mix of imported coal, domestic coal and AFR.
- JKCE's green power share stood at 51% in FY24 (vs 19% in FY20) and it aims to reach 75% by FY30.
- JKCE aims to increase TSR share by 200bps / annum till it reaches 25% by FY30 (from 16.3% in FY24).
- The company shall fully commission the 18MW WHRS at Muddapur, Karnataka by Q1FY25-end. Its benefits will be reflected partially in Q1FY25 and fully in Q2FY25.

- JKCE plans to enter into long-term agreement to source 40-50MW of solar power by Q1FY25-end.
- Other expenses were higher sequentially in Q4FY24 owing to (1) higher branding expenses and (2) investment in IT upgradation (from SAP HANA to SAP S/4HANA).

Capex

- Capex cash outflow guidance is ~INR 19bn for FY25 and ~INR 18bn for FY26.
- The 3.3mtpa clinker (Panna line-2) and 6mtpa GUs may get commissioned by Q2FY26-end or beginning of Q3FY26.
- The 10k tpd Panna line-2 clinker line can be expanded further by 2k tpd overtime.
- The break-up of INR 28.5bn capex is INR 23bn (incl. WHRS) allocated towards Panna line-2 and 1mtpa cement unit. The balance ~INR 5.5bn is towards Bihar GF unit and 1mtpa expansion, each at Hamirpur, UP and Prayagraj, UP.
- Land acquisition process is in advanced stages for 3mtpa greenfield unit in Bihar.
- JKCE shall spend ~INR 400mn (in FY25) on refurbishment of acquired Toshali Cement's assets. It plans to start the production by Q3FY25 and expects annual volumes of 3-4LT.
- Post line-2 expansion at Panna, JKCE has plans to expand further; options being – 1) Jaisalmer, Rajasthan, 2) Karnataka unit (existing line running at optimal utilisation), 3) Panna line-3 and 4) Toshali Cements (post signing of long-term mining lease agreement with Odisha State).

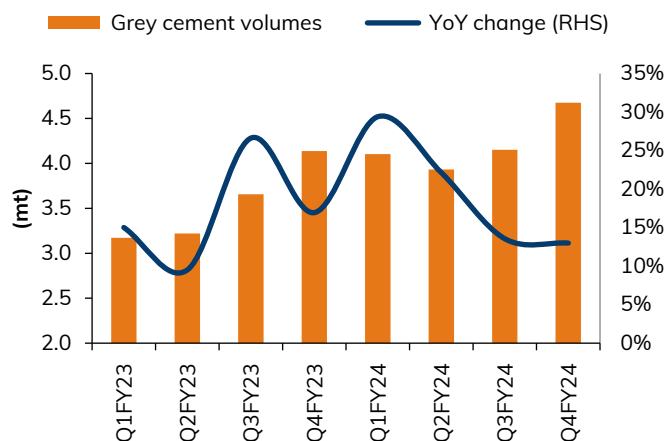
Others

- Paints business achieved revenue of INR 1.53bn in FY24 (Q4FY24: INR 510mn). Revenue guidance stands unchanged at ~INR 3bn for FY25 and ~INR 5bn for FY26.
- Standalone white segment includes revenue of ~INR 300mn from paint business.
- JKCE reported ~INR 200mn of operational losses in FY24 in paints business (Q4FY24: ~INR 60mn).
- JKCE expects operational losses in paints business to increase to INR 350-400mn in FY25 due to higher expenditure on branding.
- It expects paints business to turn EBITDA positive in FY27.
- JKCE commands 48% / 22% of market share in white cement / wall putty segments, respectively. It estimates market size of wall putty business in India at ~4mt.
- In FY24, Fujairah, UAE unit registered 34% YoY growth in cement and clinker volumes and stood at 5.75LT (from 4.28LT YoY). UAE business reported EBITDA of ~INR 700mn in FY24.

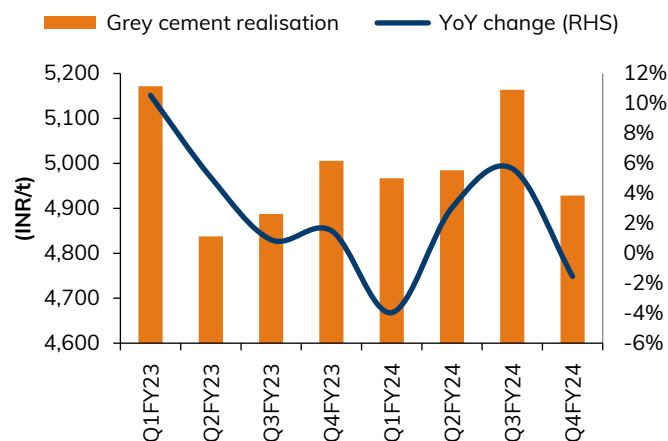
Exhibit 1: Q4FY24 result review – standalone

Particulars (INR mn)	Q4FY24	Q4FY23	YoY (%)	Q3FY24	QoQ (%)	Q4FY24E	Variance
Volume Sales (mt)	5.09	4.56	11.6	4.58	11.3	5.17	(1.6)
Blended realisations (INR/t) *	5,550	5,727	(3.1)	5,822	(4.7)	5,604	(1.0)
Net Sales	29,389	26,646	10.3	27,848	5.5	29,990	(2.0)
Raw Materials	4,916	4,252	15.6	3,721	32.1	4,585	7.2
Personnel Cost	1,963	1,479	32.8	1,820	7.9	1,850	6.1
Power fuel costs	5,873	7,523	(21.9)	6,153	(4.6)	7,009	(16.2)
Freight	6,484	5,678	14.2	5,905	9.8	6,675	(2.9)
Other Expenses	4,678	4,078	14.7	4,164	12.4	4,502	3.9
Total Expenses	23,914	23,010	3.9	21,764	9.9	24,621	(2.9)
EBITDA	5,475	3,636	50.6	6,084	(10.0)	5,369	2.0
EBITDA / t (INR)	1,075	797	34.9	1,330	(19.1)	1,038	3.6
Interest	1,112	976	13.9	1,109	0.2	1,124	(1.1)
Depreciation	1,307	1,117	17.0	1,178	10.9	1,188	10.0
Other Income	431	361	19.4	352	22.5	360	19.7
Recurring pre-tax income	3,488	1,904	83.2	4,149	(15.9)	3,416	2.1
Extraordinary inc/(exp)	95	-	NA	-	NA	-	NA
Less: Taxation	1,223	510	139.7	1,254	(2.5)	1,025	19.4
Reported Net Income	2,360	1,394	69.3	2,895	(18.5)	2,392	(1.3)
Recurring Net Income	2,265	1,394	62.5	2,895	(21.8)	2,392	(5.3)
Ratios (%)							
EBITDA margins	18.6	13.6		21.8		17.9	
Net profit margins	7.7	5.2		10.4		8.0	

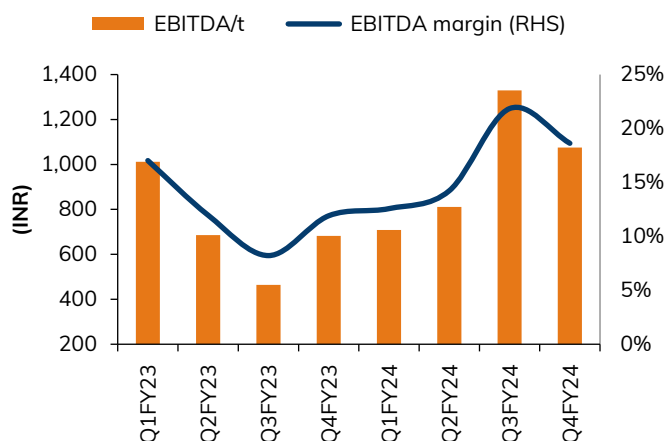
Source: I-Sec research, Company data, *Excluding other operating income

Exhibit 2: Quarterly volumes trend

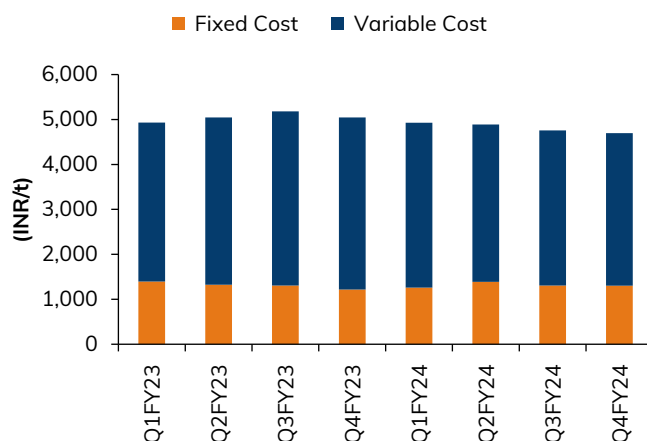
Source: I-Sec research, Company data

Exhibit 3: Quarterly realisation trend

Source: I-Sec research, Company data

Exhibit 4: Quarterly margin trend - Standalone

Source: I-Sec research, Company data

Exhibit 5: Break-up of total cost - Standalone

Source: I-Sec research, Company data

Exhibit 6: Historical quarterly analysis

(INR/t)	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24
Blended realisations*	5,727	5,636	5,702	5,822	5,550
Growth % (YoY)	1.3	-5.2	-0.5	2.4	(3.1)
Raw materials	932	959	972	813	965
Staff costs	324	369	380	398	386
Power & fuel costs	1649	1468	1370	1,345	1,153
Outward freight	1245	1239	1160	1,290	1,273
Other expenditure	894	891	1008	910	919
Total	5,045	4,927	4,890	4,756	4,696
EBITDA-blended	797	893	1,028	1,330	1,075

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

Exhibit 7: Historical Segmental analysis

Particulars	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24
Grey Cement					
Revenue (INR mn)	20,714	20,385	19,604	21,441	23,043
Realisation (INR/t)	5,006	4,967	4,985	5,164	4,928
Volumes (mnte)	4.14	4.10	3.93	4.15	4.68
White Cement					
Revenue (INR mn)	5,408	5,021	5,161	5,200	5,217
Realisation (INR/t)	12,789	12,431	12,568	12,258	12,542
Volumes (mnte)	0.423	0.404	0.411	0.424	0.416

Source: I-Sec research, Company data

Exhibit 8: Q4FY24 result review – consolidated

(INR mn)	Q4FY24	Q4FY23	% chg (YoY)	Q3FY24	% chg (QoQ)
Net Sales	31,058	27,779	11.8	29,348	5.8
Raw Materials	5,269	4,556	15.7	3,849	36.9
Personnel Cost	2,182	1,681	29.7	1,988	9.7
Power fuel costs	6,156	7,748	(20.5)	6,506	(5.4)
Freight	6,810	5,905	15.3	6,148	10.8
Other Expenses	5,041	4,393	14.8	4,606	9.5
Total Expenses	25,458	24,284	4.8	23,097	10.2
EBITDA	5,599	3,495	60.2	6,251	(10.4)
Interest	1,149	1,011	13.6	1,141	0.7
Depreciation	1,530	1,322	15.7	1,404	8.9
Other Income	457	380	20.3	385	18.8
Recurring pre-tax income	3,377	1,541	119.1	4,090	(17.4)
Extraordinary income/ (exps)	95	3	NA	-	NA
Taxation	1,275	472	170.4	1,252	1.8
Reported Net Income	2,197	1,073	104.7	2,838	(22.6)
Recurring Net Income	2,102	1,070	96.5	2,838	(25.9)
Ratios (%)					
EBITDA margins	18.0	12.6		21.3	
Net profit margins	6.8	3.9		9.7	

Source: I-Sec research, Company data

Exhibit 9: Valuations based on 16x Mar'26E EV/E

Target EV/ EBITDA multiple (x)	16
Target EV (INR mn)	3,98,249
Net debt / (cash) (INR mn)	41,243
Target value (INR mn)	3,57,006
No. of shares (mn)	77.3
Target price per share (INR)	4,620

Source: I-Sec research, Company data

Risk: Sharp drop in cement prices.**Exhibit 10: Earnings revision**

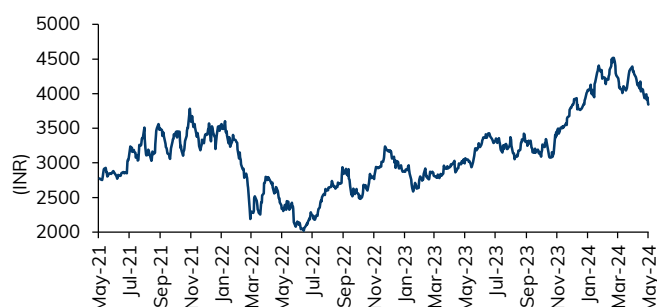
(INR mn)	FY25E			FY26E		
	Revised	Earlier	% chg	Revised	Earlier	% chg
Revenues	1,20,634	1,25,912	(4.2)	1,32,595	1,35,076	(1.8)
EBITDA	21,928	25,506	(14.0)	24,891	27,085	(8.1)
PAT	8,449	10,908	(22.5)	9,695	11,487	(15.6)

Source: I-Sec research, Company data

Exhibit 11: Shareholding pattern

%	Sep'23	Dec'23	Mar'24
Promoters	45.8	45.7	45.7
Institutional investors	38.7	39.3	39.5
MFs and others	23	22.6	22
FIs/Banks	0.1	0.1	0.2
Insurance	1.2	1.4	1.4
FIIIs	14.4	15.3	15.9
Others	15.5	15	14.8

Source: Bloomberg

Exhibit 12: Price chart

Source: Bloomberg

Financial Summary (Consolidated)

Exhibit 13: Profit & Loss

(INR mn, year ending March)

	FY23A	FY24P	FY25E	FY26E
Net Sales	97,202	1,15,560	1,20,634	1,32,595
Operating Expenses	68,131	76,615	80,410	87,487
EBITDA	13,143	20,598	21,928	24,891
EBITDA Margin (%)	13.5	17.8	18.2	18.8
Depreciation & Amortization	4,619	5,653	5,848	6,500
EBIT	8,524	14,945	16,080	18,391
Interest expenditure	3,122	4,531	4,580	4,310
Other Non-operating Income	874	1,451	1,110	389
Recurring PBT	6,276	11,810	12,610	14,470
Profit / (Loss) from Associates	-	-	-	-
Less: Taxes	2,113	3,855	4,161	4,775
PAT	4,163	7,955	8,449	9,695
Less: Minority Interest	-	-	-	-
Extraordinaries (Net)	-	(37)	-	-
Net Income (Reported)	4,163	7,955	8,449	9,695
Net Income (Adjusted)	4,163	7,992	8,449	9,695

Source Company data, I-Sec research

Exhibit 14: Balance sheet

(INR mn, year ending March)

	FY23A	FY24P	FY25E	FY26E
Total Current Assets	40,885	44,599	33,037	28,231
of which cash & cash eqv.	16,209	20,109	7,933	1,357
Total Current Liabilities & Provisions	20,527	21,739	22,039	23,198
Net Current Assets	20,358	22,860	10,998	5,033
Investments	215	215	215	215
Net Fixed Assets	84,456	93,803	97,455	1,17,955
ROU Assets	-	-	-	-
Capital Work-in-Progress	7,295	4,295	16,795	7,795
Total Intangible Assets	-	-	-	-
Other assets	-	-	-	-
Deferred Tax assets	-	-	-	-
Total Assets	1,12,324	1,21,173	1,25,463	1,30,999
Liabilities				
Borrowings	49,951	52,391	49,391	46,391
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	52,504	59,794	68,330
Total Net Worth	46,868	53,277	60,567	69,102
Minority Interest	(444)	(444)	(444)	(444)
Total Liabilities	1,12,324	1,21,173	1,25,463	1,30,999

Source Company data, I-Sec research

Exhibit 15: Quarterly trend

(INR mn, year ending March)

	Jun-23	Sep-23	Dec-23	Mar-24
Net Sales	27,626	27,528	29,348	31,058
% growth (YoY)	21.7	23.6	20.7	11.8
EBITDA	4,078	4,670	6,251	5,599
Margin %	14.8	17.0	21.3	18.0
Other Income	316	293	385	457
Extraordinaries	(150)	0	0	0
Adjusted Net Profit	1,135	1,785	2,838	2,102

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

Exhibit 16: Cashflow statement

(INR mn, year ending March)

	FY23A	FY24P	FY25E	FY26E
Operating Cashflow	13,129	17,463	18,458	20,969
Working Capital Changes	642	(2,457)	(4,475)	(5,386)
Capital Commitments	(18,697)	(12,000)	(22,000)	(18,000)
Free Cashflow	-	-	-	-
Other investing cashflow	(1,451)	708	-	-
Cashflow from Investing Activities	(20,148)	(11,292)	(22,000)	(18,000)
Issue of Share Capital	-	-	-	-
Interest Cost	-	-	-	-
Inc (Dec) in Borrowings	-	-	-	-
Dividend paid	(1,159)	(1,545)	(1,159)	(1,159)
Others	8,572	2,440	(3,000)	(3,000)
Cash flow from Financing Activities	7,413	895	(4,159)	(4,159)
Chg. in Cash & Bank balance	1,036	4,609	(12,176)	(6,576)
Closing cash & balance	12,349	20,109	7,933	1,357

Source Company data, I-Sec research

Exhibit 17: Key ratios

(Year ending March)

	FY23A	FY24P	FY25E	FY26E
Per Share Data (INR)				
Reported EPS	53.9	103.4	109.3	125.5
Adjusted EPS (Diluted)	53.9	103.4	109.3	125.5
Cash EPS	113.7	176.6	185.0	209.6
Dividend per share (DPS)	15.0	20.0	15.0	15.0
Book Value per share (BV)	606.6	689.5	783.9	894.3
Dividend Payout (%)	27.8	19.3	13.7	12.0
Growth (%)				
Net Sales	21.6	18.9	4.4	9.9
EBITDA	(11.3)	56.7	6.5	13.5
EPS (INR)	(38.7)	92.0	5.7	14.7
Valuation Ratios (x)				
P/E	72.8	37.9	35.9	31.3
P/CEPS	34.5	22.2	21.2	18.7
P/BV	6.5	5.7	5.0	4.4
EV / EBITDA	25.6	16.2	15.7	14.0
EV / t (USD)	196.3	179.3	171.0	138.5
Dividend Yield (%)	0.4	0.5	0.4	0.4
Operating Ratios				
Gross Profit Margins (%)	83.6	84.1	84.8	84.8
EBITDA Margins (%)	13.5	17.8	18.2	18.8
Effective Tax Rate (%)	33.7	32.6	33.0	33.0
Net Profit Margins (%)	4.3	6.9	7.0	7.3
NWC / Total Assets (%)	18.1	18.9	8.8	3.8
Net Debt / Equity (x)	0.7	0.6	0.7	0.6
Net Debt / EBITDA (x)	2.6	1.6	1.9	1.8
Profitability Ratios				
RoCE (%) (Post Tax)	6.4	10.0	10.0	11.0
RoE (%)	9.2	16.0	14.8	15.0
RoC (%)	8.4	13.4	12.3	11.7
Fixed Asset Turnover (x)	1.3	1.3	1.3	1.2
Inventory Turnover Days	48	48	46	47
Receivables Days	20	19	18	18
Payables Days	40	38	37	39

Source Company data, I-Sec research

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