

Healthy margins sustain...

About the stock: With 14.7 MT grey cement capacity, JK Cement is the fourth largest player in North India contributing over 40% of its revenues. The company also has a presence in the western region in Gujarat, Maharashtra along with the southern region in which Karnataka is a key market for the company.

- It is also the second largest producer of white cement (0.6 MT) and wall putty (1.2 MT) in India
- The company is adding another 4 MT integrated cement capacity in the central region that will take its capacity to 18.7 MT by FY24E

Q1FY22 Results: JK Cements reported a good set of numbers for Q1FY22.

- While revenues declined 20.4% QoQ to ₹ 1633.7 crore led by 22.4% QoQ drop in volumes (3.02 MT), EBITDA of ₹ 399.6 crore was ahead of our estimated EBITDA of ₹ 355.5 crore mainly led by 300 bps QoQ increase in margins to 24.5%
- Higher realisations (up 2.6% QoQ to ₹ 5407/t) and lower cost of production (down 1.4% QoQ to ₹ 4143/t) supported margin expansion. EBITDA/t came in at ₹ 1,323/t vs ₹ 1,219/t last year and ₹ 1,128/t last quarter
- PAT of ₹ 208.3 crore remained higher than estimated PAT of ₹ 158.9 crore

What should investors do? JK Cement's share price has grown by ~4.0x over the last 36 months (from ~₹ 786 in August 2018 to ~₹ 3200 levels in August 2021).

- We maintain our HOLD rating on the stock due to a sharp run-up

Target Price & Valuation: We value stock at ₹ 3500/share, at 14x FY23E EV/EBITDA

Key triggers for future price performance:

- Stabilisation of newly commissioned capacities (4.2 MT in FY21) to generate higher operational cash flows and support next leg of growth
- In phase-II expansion, the company to add another 4 MT integrated cement capacity (2.6 MT clinker capacity), 22 MW power plant with capex of ₹ 2970 crore. This would further expand its footprints in UP & MP market
- Despite capex, net debt to remain below ₹ 2,500 crore due to cash generation and debt repayments to the tune of ₹ 1200 crore over FY22-24E

Alternate Stock Idea: In our cement coverage, we also like JK Lakshmi Cement

- With expected capacity utilisation of 90%+, operating leverage benefit would help sustain healthy margins
- BUY with a target price of ₹ 800/share



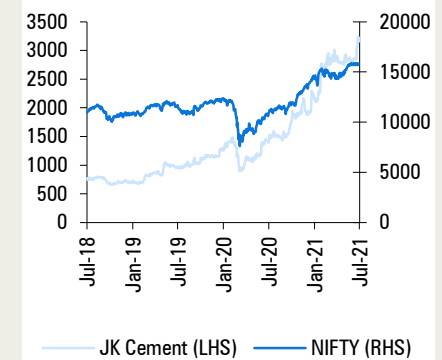
Particulars

Particulars	Amount
Mcap	₹ 21635 Crore
Debt (FY21)	₹ 3111 Crore
Cash & Invest (FY21)	₹ 1250 Crore
EV	₹ 23496 Crore
52 week H/L	₹ 1505 / 795
Equity cap	₹ 77.3 crore
Face value	₹ 10

Shareholding Pattern

(in %)	Sep-20	Dec-20	Mar-21	Jun-21
Promoter	58.1	57.7	57.7	57.6
FII	14.0	15.4	16.9	16.9
DII	23.3	21.6	20.6	20.6
Others	4.7	5.2	4.9	4.9

Price Chart



Key Risks & Events

- Any delay in commissioning of new capacity may impact growth and return ratios
- O/s liability of ₹ 258 crore in UAE subsidiary may move to the company as UAE unit is loss making unit

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Key Financial Summary

Key Financials	FY18	FY19	FY20	FY21	3 Year CAGR (%)	FY22E	FY23E	2 Year CAGR (%)
Net Sales	4591	4981	5464	6328	11.3	7432	8268	14.3
EBITDA	761	810	1182	1514	25.8	1807	2078	17.2
EBITDA (%)	16.6	16.3	21.6	23.9		24.3	25.1	
PAT	359	324	400	603	18.9	965	1063	32.8
EPS (₹)	51.3	42.0	51.8	99.6		124.9	137.6	
EV/EBITDA	34.7	32.2	22.8	17.5		14.8	12.9	
EV/Tonne (\$)	320	285	227	207		209	209	
RoNW	16.7	11.2	12.8	20.6		21.0	19.2	
RoCE	14.6	12.5	16.2	18.6		19.3	19.9	

Source: Company, ICICI Direct Research

Key Highlights & takeaways...

Q1FY22 Results

- Revenues declined 20.4% QoQ to ₹ 1633.7 crore (vs. I-direct estimate: ₹ 1,743.7 crore) led by 22.4% QoQ to 3.02 MT (lower than I-direct estimated sales volume of 3.29 MT). Grey cement volumes were down 21.2% QoQ to 2.75 MT whereas white cements sales fell 33% QoQ to 0.26 MT
- Despite lower revenues, EBITDA of ₹ 399.6 crore remained ahead of our estimated EBITDA of ₹ 355.5 crore mainly led by 300 bps QoQ increase in margins to 24.5%
- Higher realisations (up 2.6% QoQ to ₹ 5407/t and surprisingly, lower cost of production (down 1.4% QoQ to ₹ 4143/t) supported margin expansion. EBITDA/t came in at ₹ 1,323/t vs ₹1,219/t LY and ₹ 1,128/t last quarter
- Reported PAT of ₹ 208.3 crore was higher than estimated PAT of ₹ 158.9 crore

Q1FY22 Conference Call Highlights

- Operated with capacity utilisation of 71% for grey cement vs. 95% in Q4FY21. Grey cement realisations increased 5.9% QoQ while white cement realisations remained lower by 3.6% QoQ
- The ground breaking ceremony for expansion of another 4 MT integrated unit at Panna (including 2 MT GU at Hamirpur and 22 MW WHRS) was done on May 5, 2021. The project is likely to come on stream by Q4FY23E. The total capex for the same is ₹ 2970 crore. Till date ₹ 439 crore has been spent
- Expect new capacity to operate with 60% capacity in the year one post commissioning. Then it will ramp-up to over 75% from year two onwards
- The Nimbahara line III upgradation is expected to be complete by Q2FY22E. Out of total capex of ₹ 405 crore, ₹ 387 crore has already been spent till date
- Overall, the company is expected to incur capex of ₹ 1250 crore in FY22E and ₹ 1400 crore in FY23E
- Cost of production remained lower this quarter due to utilisation of low cost petcoke inventory. The full impact of cost increase would get visible only from Q3FY22. However, efficiency from the new plant is expected to help offset the pressure, to some extent
- JK Cement repaid ₹ 102 core of o/s debt of UAE subsidiary. Total gross debt is now at ₹ 3068 crore at the consolidated level. The company does not expect any further write-off from its overseas subsidiary
- On the ESG front, the company aims to increase the green power share (i.e. WHRS, solar and other alternative fuels) to increase from 25% to 75% by 2030. It also aims to further improve the clinker factor from 69% to 65% by increasing the share

Peer comparison

Exhibit 1: Cost of production on per tonne analysis

Cost of Production	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	YoY	QoQ
Shree Cement	3,310	3,115	3,099	3,377	3,561	7.6	5.5
Heidelberg	3,493	3,500	3,654	3,576	3,683	5.4	3.0
JK Laxmi Cement	3,579	3,590	3,714	3,585	3,704	3.5	3.3
Ambuja	3,775	3,831	3,919	3,653	3,756	-0.5	2.8
Ramco	4,051	3,699	3,624	3,681	4,039	-0.3	9.7
UltraTech Cement	3,887	3,887	3,894	3,931	4,045	4.1	2.9
JK Cement	4,245	4,056	4,138	4,143	4,085	-3.8	-1.4
India Cement	4,181	3,864	3,863	4,176	4,301	2.9	3.0
ACC	4,363	4,416	4,634	4,306	4,409	1.1	2.4

Source: Company, ICICI Direct Research

JK Cement's cost of production declined 1.4% QoQ to ₹ 4085/t while peer companies saw an average increase of 3.5% in the cost of production

Exhibit 2: Variance Analysis (Domestic Performance)

	Q1FY22	Q1FY22E	Q1FY21	YoY (%)	Q4FY21	QoQ (%)	Comments
Total Operating Income	1633.7	1743.7	965.0	69.3	2,052	-20.4	Blended sales volume declined 22.4% QoQ to 3.02 MT with grey cement volumes down 21.2% QoQ to 2.75 MT whereas white cement sales declined 33% QoQ to 0.26 MT
Other Income	27.3	15.0	20.3	34.2	34.0	-19.9	
Raw Material Expenses	240.3	304.3	195.3	23.1	342.8	-29.9	
Employee Expenses	123.8	113.3	95.0	30.3	109.7	12.9	
Power & Fuel	298.9	319.1	153.1	95.2	353.7	-15.5	
Freight cost	334.6	361.9	175.5	90.6	420.7	-20.5	
Others	236.5	289.5	130.7	80.9	386.5	-38.8	
EBITDA	399.6	355.5	215.3	85.6	439.1	-9.0	
EBITDA Margin (%)	24.5	20.4	22.3	215 bps	21.4	307 bps	Lower cost of production also aided in margin expansion
Interest	56.0	66.2	57.2	-2.1	52.9	5.8	
Depreciation	65.7	63.5	58.0	13.3	64.9	1.2	
PBT	305.2	240.7	120.5	153.4	188.5	61.9	
Total Tax	96.9	81.9	42.7	126.7	125.1	-22.5	
PAT	208.3	158.9	77.7	168.0	63.4	228.7	

Key Metrics

Volume (MT)	3.02	3.29	1.77	71.1	3.89	-22.4
Realisation (₹)	5,407	5,300	5,464	-1.0	5,271	2.6
EBITDA per Tonne (₹)	1,323	1,081	1,219	8.5	1,128	17.3

Source: Company, ICICI Direct Research

Exhibit 3: Per tonne analysis

Per tonne	Q1FY22	Q1FY22E	Q1FY21	YoY (%)	Q4FY21	QoQ (%)
Net Sales realisation	5,407	5,300	5,464	-1.0	5,271	2.6
Raw Material Expenses	795	925	1,106	-28.0	880	-9.6
Employee Expenses	410	344	538	-23.9	282	45.5
Power and fuel	989	970	867	14.1	908	8.9
Freight	1,107	1,100	994	11.4	1,080	2.5
Others	783	880	740	5.7	992	-21.1
Production costs	4,085	4,219	4,245	-3.8	4,143	-1.4

Source: Company, ICICI Direct Research

Exhibit 4: Change in estimates

(₹ Crore)	FY22E			FY23E			Comments
	Old	New	% Change	Old	New	% Change	
Revenue	6,951.4	7,432.2	6.9	7,788.4	8,268.2	6.2	
EBITDA	1,682.8	1,988.6	18.2	1,890.6	1,917.4	1.4	
EBITDA Margin (%)	24.2	26.8	255 bps	24.3	23.2	-108 bps	

Source: Company, ICICI Direct Research

Key investment rationale

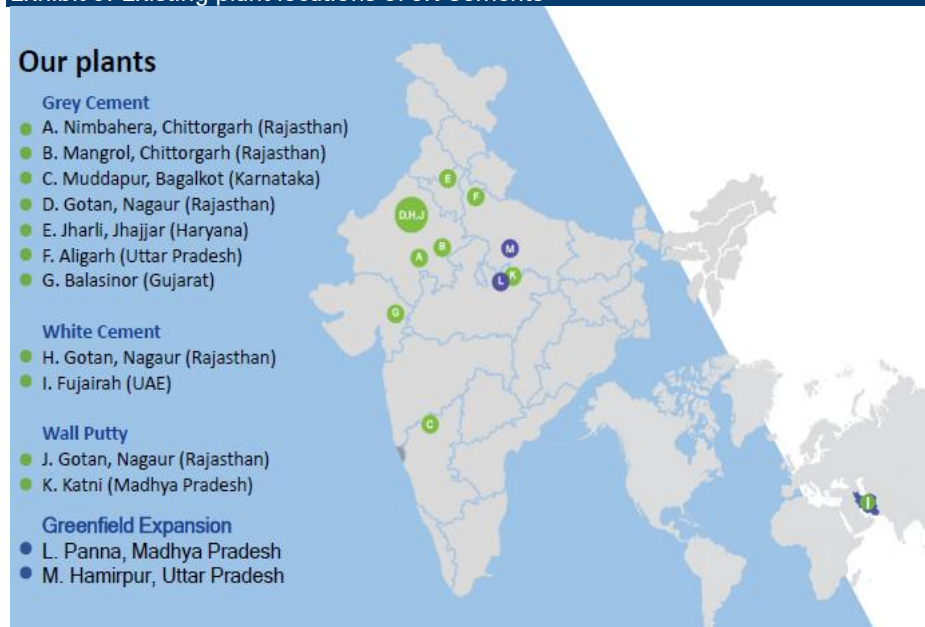
Completion of phase-I expansion to fuel growth in FY22E...

The entire 4.2 MT has been commissioned in FY21. The newly added capacities include 1 MT grinding unit (GU) each in Nimbahara and Mangrol along with 2.6 MT clinker plant and 1.5 MT GU in Aligarh and 0.7 MT GU in Gujarat (Balasinor). Hence, despite challenging environment, the company has been able to post 19% growth in volumes. Going forward also, we expect healthy volume CAGR of 12.1% in FY21-23E.

...However, Phase-II expansion to keep debt elevated

The incremental cash flow from new installed capacities would be mainly utilised towards next phase of expansion at Panna (MP) for proposed ~4 MT greenfield capacity as it would entail a capex of ~₹ 2,970 crore (\$102/t). Hence, we expect the debt levels to remain higher over the next two years. However, improved OCF from new capacity would settle down debt/EBITDA at 1.7x in FY23E vs. 2.5x in FY20.

Exhibit 5: Existing plant locations of JK Cements



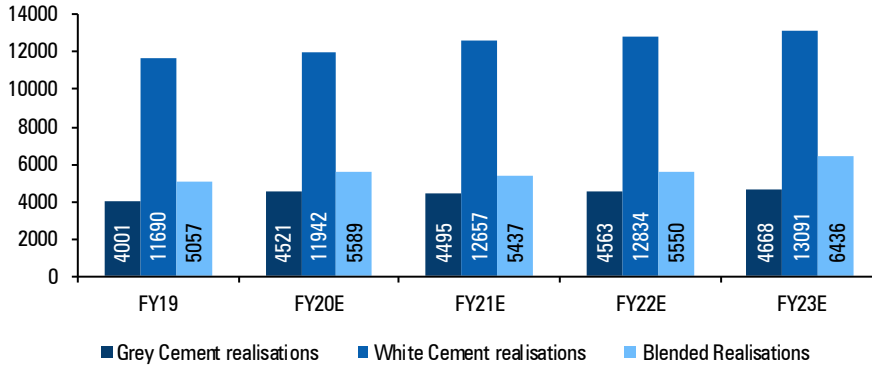
Source: Company, ICICI Direct Research

O/s liability of UAE subsidiary to likely fall into Indian entity

The Fujairah unit of the company has consistently remained loss making leading to significant net-worth erosion. The management has highlighted that the UAE entity currently has an outstanding debt of ₹ 258 crore now post ₹ 102 crore debt repayment in Q1FY22, which is to be paid over the next three years. This may move to the India entity if profitability of the UAE entity does not improve.

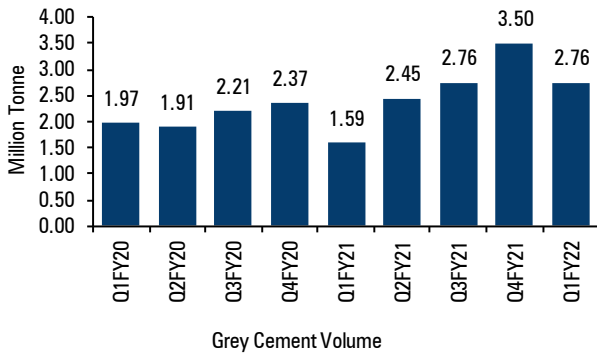
Financial story in charts

Exhibit 6: Blended realisations to remain firm



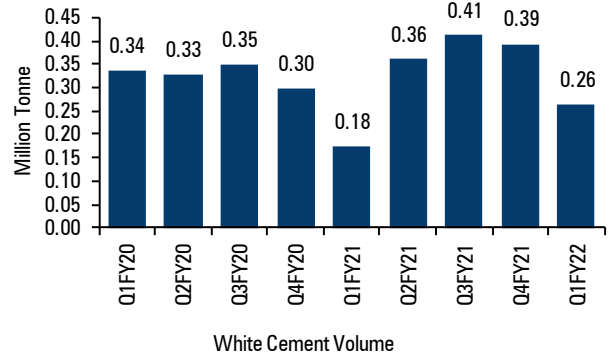
Source: Company, ICICI Direct Research

Exhibit 7: Grey cement volumes decline ~21% QoQ



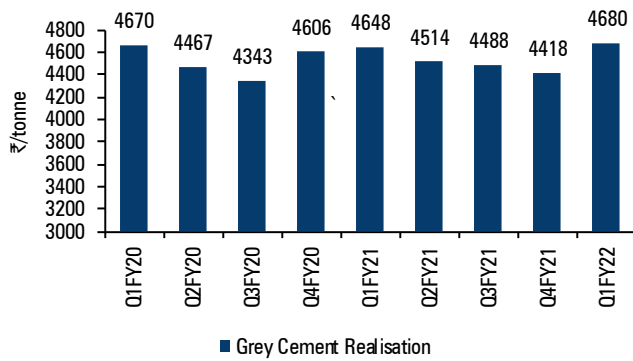
Source: Company, ICICI Direct Research

Exhibit 8: White cement volumes decline 33% QoQ



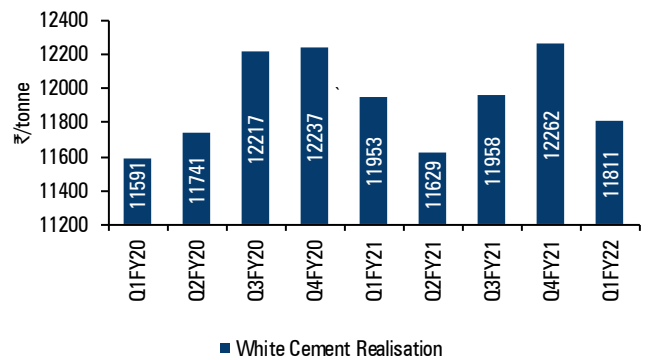
Source: Company, ICICI Direct Research

Exhibit 9: Grey cement realisations increase 5.9% QoQ



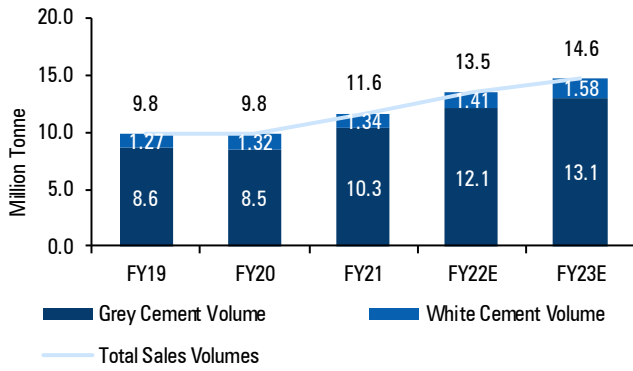
Source: Company, ICICI Direct Research

Exhibit 10: White cement realisations decline 3.6% QoQ



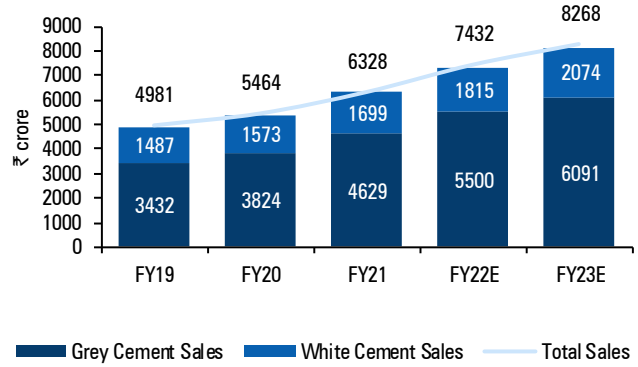
Source: Company, ICICI Direct Research

Exhibit 11: Expect volumes CAGR of 12.1% in FY21-23E



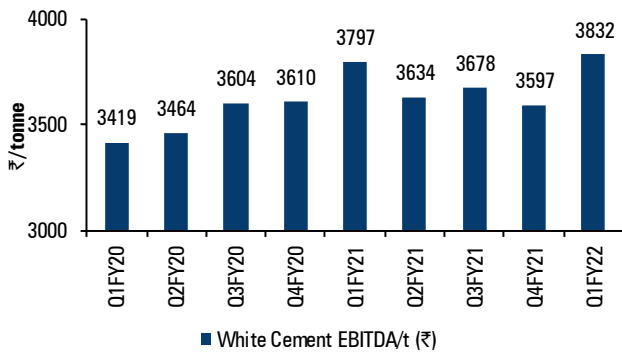
Source: Company, ICICI Direct Research

Exhibit 12: Revenues to grow at 14.3% CAGR over FY21-23E



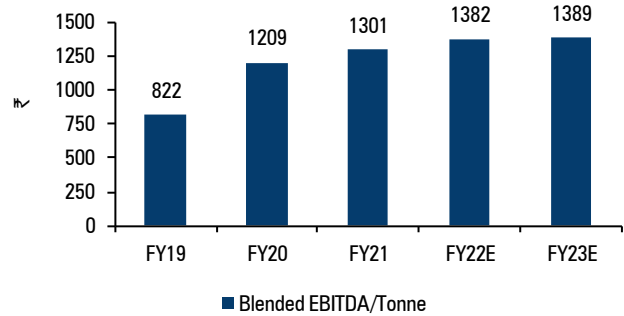
Source: Company, ICICI Direct Research

Exhibit 13: We assume white cement EBITDA of ₹ 3832/t for Q1FY22



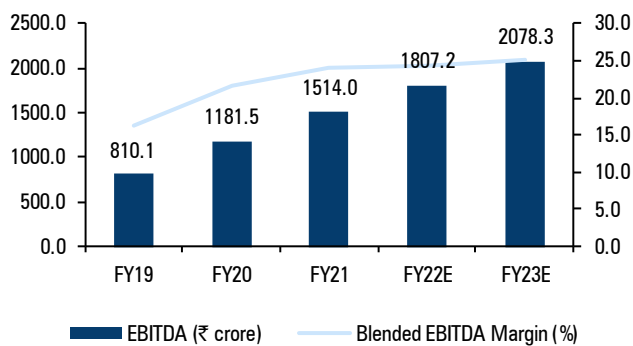
Source: Company, ICICI Direct Research

Exhibit 14: Annual EBITDA/t to stay above ₹ 1350/t



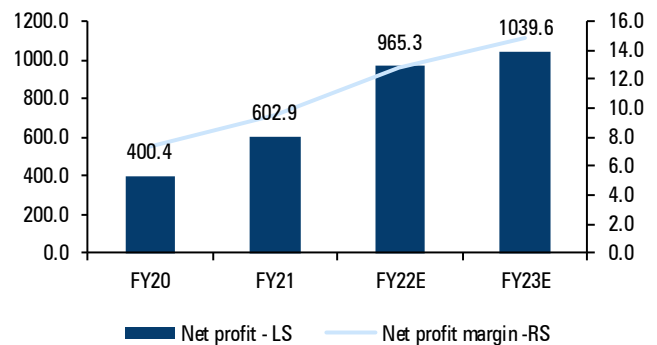
Source: Company, ICICI Direct Research

Exhibit 15: Absolute EBITDA to improve sharply during FY21-23E led by improved volumes and cost efficiencies



Source: Company, ICICI Direct Research

Exhibit 16: PAT growth trend



Source: Company, ICICI Direct Research

While new capacities would drive cost efficiencies, the increase in the non-trade mix would keep a check on margins. Further, the Penna expansion along with an additional debt obligation from its UAE subsidiary would continue to keep debt levels high. Post the recent run-up in the stock price, we now downgrade our rating from BUY to **HOLD** with an unchanged target price of ₹ 2950/share (i.e. valuing at 13x FY23E EV/EBITDA).

Financial summary

Exhibit 8: Profit and loss statement				
	₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E
Total operating income	5,463.8	6,328.3	7,432.2	8,268.2
Growth (%)	9.7	15.8	17.4	11.2
Raw material cost	860.7	1051.0	1128.4	1317.1
Employee Expenses	390.9	412.1	463.8	453.3
Power, Oil & Fuel	1009.1	1103.6	1448.2	1536.6
Freight cost	1032.1	1239.8	1491.4	1624.4
Other Expenses	989.4	1007.8	1093.2	1258.5
Total Operating Exp.	4,282.2	4,814.3	5,625.0	6,189.9
EBITDA	1,181.5	1,514.0	1,807.2	2,078.3
Growth (%)	45.8	28.1	19.4	15.0
Depreciation	214.4	244.7	254.1	275.7
Interest	222.9	223.2	224.0	264.9
Other Income	85.9	113.3	85.3	73.0
Exceptional items	178.2	166.9	0.0	0.0
PBT	652.0	992.6	1,414.4	1,610.7
Total Tax	251.6	389.7	449.1	547.6
PAT	400.4	602.9	965.3	1,063.1
Growth (%)	23.4	50.6	60.1	10.1
Adjusted EPS (₹)	51.8	78.0	124.9	137.6

Source: Company, ICICI Direct Research

Exhibit 9: Cash flow statement				
	₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E
Profit after Tax	400.4	602.9	965.3	1,063.1
Add: Depreciation	214.4	244.7	254.1	275.7
(Inc)/dec in Current Assets	-385.3	-251.4	-81.2	-184.0
Inc/(dec) in CL and Provisions	-55.7	394.5	-81.3	246.7
CF from operating activi	173.7	990.6	1,056.9	1,401.5
(Inc)/dec in Investments	393.5	-87.2	-80.0	-80.0
(Inc)/dec in Fixed Assets	-860.3	-567.3	-1,250.0	-1,400.0
Others	-14.1	53.9	0.0	200.0
CF from investing activi	-480.9	-600.7	-1,330.0	-1,280.0
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	616.7	139.3	200.0	0.0
Dividend paid & dividend tax	-84.3	-139.8	-111.8	-111.8
Inc/(dec) in Sec. premium	0.0	0.0	0.0	0.0
Others	-77.4	141.0	0.0	0.0
CF from financing activi	455.0	140.5	88.2	-111.8
Net Cash flow	147.8	530.5	-185.0	9.7
Opening Cash	483.3	631.1	1,161.7	976.7
Closing Cash	631.1	1,161.7	976.7	986.4

Source: Company, ICICI Direct Research

Exhibit 10: Balance sheet				
	₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E
Liabilities				
Equity Capital	77.3	77.3	77.3	77.3
Reserve and Surplus	3,051.6	3,655.8	4,509.3	5,460.5
Total Shareholders funds	3,128.9	3,733.0	4,586.5	5,537.8
Total Debt	2,972.0	3,111.3	3,311.3	3,311.3
Deferred Tax Liability	409.4	593.9	593.9	593.9
Minority Interest / Others	0.0	0.0	0.0	0.0
Total Liabilities	6,510.3	7,438.2	8,491.7	9,443.0
Assets				
Gross Block	6,216.5	6,789.6	7,728.1	8,028.1
Less: Acc Depreciation	1,913.7	2,158.4	2,412.5	2,688.2
Net Block	4,302.7	4,631.2	5,315.7	5,339.9
Capital WIP	509.2	488.5	800.0	1,900.0
Total Fixed Assets	4,811.9	5,119.7	6,115.7	7,239.9
Intangible Asset	13.0	27.9	27.9	27.9
Investments	915.7	1,133.5	1,213.5	1,093.5
Inventory	627.2	686.7	779.4	806.3
Debtors	223.4	316.1	264.7	294.5
Loans and Advances	624.0	723.3	763.1	890.5
Cash	631.1	1,161.7	976.7	986.4
Total Current Assets	2,105.8	2,887.7	2,784.0	2,977.7
Creditors	452.6	559.2	549.8	611.6
Provisions	883.5	1,171.4	1,099.6	1,284.4
Total Current Liabilities	1,336.1	1,730.6	1,649.3	1,896.0
Net Current Assets	769.7	1,157.1	1,134.7	1,081.6
Application of Funds	6,510.3	7,438.2	8,491.7	9,443.0

Source: Company, ICICI Direct Research

Exhibit 11: Key ratios				
	₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E
Per share data (₹)				
Adjusted EPS	51.8	78.0	124.9	137.6
Cash EPS	79.6	109.7	157.8	173.3
BV	404.9	483.1	593.6	716.7
DPS	9.0	15.0	12.0	12.0
Cash Per Share	81.7	150.3	126.4	127.7
Operating Ratios (%)				
EBITDA Margin	21.6	23.9	24.3	25.1
PAT Margin	7.3	9.5	13.0	12.9
Inventory days	40.0	37.9	36.0	35.0
Debtor days	14.9	18.2	13.0	13.0
Creditor days	30.2	32.3	27.0	27.0
Return Ratios (%)				
RoE	12.8	20.6	21.0	19.2
RoCE	16.2	18.6	19.3	19.9
RoIC	18.0	22.3	23.7	28.6
Valuation Ratios (x)				
P/E	61.6	40.9	25.5	23.2
EV / EBITDA	22.8	17.5	14.8	12.9
EV / Net Sales	4.9	4.2	3.6	3.2
Market Cap / Sales	4.5	3.9	3.3	3.0
Price to Book Value	7.9	6.6	5.4	4.5
Solvency Ratios				
Debt/EBITDA	2.5	2.1	1.8	1.6
Debt / Equity	0.9	0.8	0.7	0.6
Current Ratio	1.6	1.7	1.7	1.6
Quick Ratio	1.1	1.0	1.1	1.1

Source: Company, ICICI Direct Research

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Buy: > 15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: < -15%



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