

## Growth momentum to stay healthy...

**About the stock:** With 18.7 MT grey cement capacity, JK Cement is the fourth largest player in North India, which contribute over 40% of its revenues. The company also has a presence in Gujarat, Maharashtra and Karnataka.

- It is also the second largest producer of white cement (0.6 MT) and wall putty (1.2 MT) in India
- The company is aiming to reach 25 MT capacity by FY25E and has identified the Uttar Pradesh and Madhya Pradesh markets for the said expansion

**Q3FY23 Results:** JK Cement's Q3FY23 performance was weak and not only saw higher cost pressure but also a fall in realisations. This led to a further margin decline of 237 bps to 11.5% on a QoQ basis

- Revenues were up 17.9% YoY, 6.8%QoQ to ₹ 2288 crore
- EBITDA margins were down 237 bps QoQ to 11.5%, mainly on account of lower-than-expected realisations. Blended EBITDA/t came in at ₹ 662/t (vs. I-direct estimate of ₹ 859/t). It declined 40.7% YoY, 18.7% QoQ
- Reported PAT of ₹ 96.6 crore (down 42.3% YoY, 22.7% QoQ) was far lower than estimated PAT of ₹ 172.8 crore on lower margins

**What should investors do?** Post timely commissioning of the new unit in Panna, we expect the growth momentum to accelerate from Q4 onwards. Further, newly announced capex at much lower cost/tonne will help boost ratios further.

- We maintain our **BUY** rating on the stock

**Target Price and Valuation:** We value the company at ₹ 3,350/share (i.e. at 15x FY24E EV/EBITDA).

### Key triggers for future price performance:

- The recent commissioning of 4 MT integrated grey cement capacity at Panna MP with split grinding unit and 22 MW WHRS to boost topline
- In the next phase, the company will be adding another 5.5 MT GU capacity with total capex of ₹ 1161 crore. On a per tonne basis, this works out to capex of only \$26/tonne. This will help boost return ratios, going forward
- Despite capex, net debt/equity to remain stable at 0.7x supported by operating cash flows and some debt repayments over FY22-24E
- Expect revenue, EBITDA CAGR of 16.8%, 15.4%, respectively, during FY22-24E led by volume CAGR of 14.8%. PAT CAGR is expected at ~23.7% **only if no further impairment comes from the UAE subsidiary**

**Alternate Stock Idea:** In our cement coverage, we also like UltraTech.

- It is a market leader with strong brand in the retail segment and robust b/s
- BUY with a target price of ₹ 8,050/share



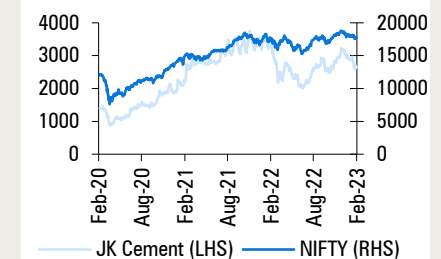
### Particulars

Particulars	Amount
Mcap	₹ 21411 Crore
Debt (FY22)	₹ 3625 Crore
Cash & Invest (FY22)	₹ 283 Crore
EV	₹ 24754 Crore
52 week H/L	₹ 3838 / 2004
Equity cap	₹ 77.3 crore
Face value	₹ 10

### Shareholding Pattern

(in %)	Mar-22	Jun-22	Sep-22	Dec-22
Promoter	45.8	45.8	45.8	45.8
FII	16.5	16.1	15.6	15.9
DII	20.7	21.1	21.9	21.9
Others	17.1	17.0	16.6	16.4

### Price Chart



### Key Risks & Events

- Volatility in prices of key inputs like petcoke
- Further impairment from UAE subsidiary may lead to lower profitability

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### Key Financial Summary

Key Financials	FY19	FY20	FY21	FY22	3 Year CAGR (%)	FY23E	FY24E	2 Year CAGR (%)
Net Sales	4981	5464	6328	7679	15.5	9419	10472	16.8
EBITDA	810	1182	1514	1482	22.3	1429	1973	15.4
EBITDA (%)	16.3	21.6	23.9	19.3		15.2	18.8	
PAT	324	400	603	631	24.8	662	965	23.7
EPS (₹)	42.0	51.8	99.6	98.5		85.7	124.9	
EV/EBITDA	28.3	20.1	15.4	16.6		17.3	12.5	
EV/Tonne (\$)	250	200	182	177		149	110	
RoNW	11.2	12.8	20.6	17.9		13.8	17.1	
RoCE	12.5	16.2	18.6	15.6		12.6	17.4	

Source: Company, ICICI Direct Research

## Key Highlights & takeaways...

### Q3FY23 Results

- Blended sales volume were at 3.97 MT (up 19.5% YoY, 8.9% QoQ). Grey cement volumes were up 23% YoY, 10% QoQ to 3.54 MT with capacity utilisation of 93% while sales of white cements including putty fell 11% YoY, 9% QoQ to 0.38 MT
- Blended realisations fell 1.3% YoY, 1.9% QoQ to ₹ 5,763/t. This was mainly due to 1% decline in the trade sales mix (67%) and 1% fall in blending ratio (62%)
- Cost per tonne was up 8% YoY, 0.8% QoQ to ₹ 5101/t, broadly remaining in line with our estimates
- Reported PAT of ₹ 96.6 crore (down 42.3% YoY, 22.7% QoQ) was far lower than estimated PAT of ₹ 172.8 crore on lower margins
- The capex programme of 4 MT integrated grey cement capacity at Panna MP with split grinding unit and 22 MW WHRS in Uttar Pradesh with total capex of ₹ 2970 has been completed and dispatches have also started. The full impact of the same will be visible from the next quarter onwards
- Gross debt has increased by ~₹ 700 crore during 9MFY23 to ₹ 4141 crore to fund the above mentioned expansion. However, consolidated net debt declined to ₹ 2870 crore in Q3FY23 from ₹ 2940 crore Q2FY23. The same remains comfortably below management guidance for peak net debt of ~₹ 3300 crore
- In the next phase, the company will be adding another 5.5 MT GU capacity (2 MT across existing locations, 1.5 MT GU in Ujjain and 2 MT GU at Prayagraj) along with additional clinker unit of 0.66 MT in Panna) with total capex of ₹ 1161 crore. On a per tonne basis, this works out to capex of only \$26/tonne. This will help boost return ratios, going forward

### Other Highlights

- **Cement prices** remained muted with the south witnessing a weak pricing environment. An attempt to hike prices was undertaken but could not sustain fully. The management expects some possibility of price hikes, as an industry, in the near future, given strong demand trends witnessed in the current season
- **White cement** business saw weak volumes due to intense competition in the putty segment with paint and grey cement manufactures expanding in this space
- **In terms of cost**, Pet coke consumption formed 55% of the fuel mix in Q3FY23 that increased marginally QoQ. The management expects reduction in fuel costs to ₹ 2.4/kcal from ₹ 2.6/kcal in Q3FY23 with cost peaking out
- **Capex Amount** – The company has spent ₹ 1600 crore in 9MFY23. For the full year, the company is expected to incur capex of ₹ 1900 crore in FY23E and ₹ 1400 crore in FY24E.
  - **Cement:** Commissioned 2 MT capacity in Panna (which includes clinker production) and 2 MT capacity in Hamirpur, UP in Q3FY23. Expenditure on these two projects as of date was at ₹ 2,720 crore, of which ₹ 1,450 crore is in the form of debt. Balance expenditure of ₹ 250 crore on these projects is expected to occur in Q4FY23E
  - **Update on paints business** - Paints business capex (including Acro acquisition) for FY23E is estimated at ₹ 275 crore. The company has paid ₹ 153 crore to acquire 60% stake in Acro Paints and expects to complete the balance acquisition within the next 12 months
  - WHRS in the Panna plant is yet to commence. The plant is expected to be fully operational by end of Q1FY24, including WHRS
- **Update split GU** – Post Panna expansion, the company will go for 5.5 MT GU expansion with a total capex of ₹ 1161 crore (US\$26/tonne). This will

take its total capacity to 25 MT by 2025. The cement capacity of Mangrol, Muddapur, Jharli & Aligarh units would be increased by 0.5 MTPA each by various modifications. Thus, overall capacity of existing units would be increased by 2 MT i.e. from 14.7 MT to 16.7 MT. New split grinding unit having capacity of 1.5 MT and 2.0 MT would be set up in Ujjain and Prayagraj respectively. Clinker capacity at Panna would also be increased by 0.7 MT to meet additional clinker requirements (i.e. from ~2.5 MT to 3.3 MT)

- The company plans to do branding/marketing expenses of ₹ 20-25 crore in each quarter for the next two to three quarters in scaling up new capacities

Exhibit 1: Variance Analysis (Domestic Performance)

	Q3FY23	Q3FY22E	Q3FY22	YoY (%)	Q2FY23	QoQ (%)	Comments
<b>Total Operating Incon</b>	<b>2288.0</b>	<b>2410.3</b>	<b>1940.4</b>	<b>17.9</b>	<b>2,142</b>	<b>6.8</b>	
Other Income	21.8	35.0	26.4	-17.3	22.8	-4.3	
Raw Material Expenses	378.4	384.8	281.9	34.2	374.6	1.0	
Employee Expenses	142.0	144.4	129.0	10.1	140.4	1.2	
Power & Fuel	647.0	650.0	435.1	48.7	550.1	17.6	Use of hig cost fuel inventory led to rise in power & fuel cost
Freight cost	487.6	486.1	383.4	27.2	435.2	12.0	Busy season surcharge and increase in lead distance led to higher freight cost
Others	370.2	397.0	340.1	8.8	344.9	7.3	
<b>EBITDA</b>	<b>262.8</b>	<b>348.0</b>	<b>370.8</b>	<b>-29.1</b>	<b>296.7</b>	<b>-11.4</b>	
<b>EBITDA Margin (%)</b>	<b>11.5</b>	<b>14.4</b>	<b>19.1</b>	<b>-762 bps</b>	<b>13.9</b>	<b>-237 bps</b>	
Interest	65.8	61.7	65.3	0.7	62.5	5.2	
Depreciation	90.3	89.7	71.9	25.6	89.7	0.6	
PBT before Exceptionals	128.6	231.6	260.0	-50.5	167.3	-23.1	
Total Tax	32.0	58.7	92.6	-65.4	42.5	-24.6	
<b>PAT</b>	<b>96.6</b>	<b>172.8</b>	<b>167.4</b>	<b>-42.3</b>	<b>124.9</b>	<b>-22.7</b>	

Key Metrics

Volume (MT)	3.93	4.05	3.32	18.3	3.64	7.9	Grey cement volume grew 23% YoY to 3.54 MT while white cement sales declined 11% YoY to 0.38 MT
Realisation (₹)	5,821	5,950	5,841	-0.3	5,878	-1.0	Decline in blending ratio, trade sales mix led to fall in realisations
EBITDA per Tonne (₹)	669	859	1,116	-40.1	814	-17.9	

Source: Company, ICICI Direct Research

Exhibit 2: Per tonne analysis

Per tonne	Q3FY23	Q3FY22E	Q3FY22	YoY (%)	Q2FY23	QoQ (%)
<b>Net Sales realisation</b>	<b>5,821</b>	<b>5,950</b>	<b>5,841</b>	<b>-0.3</b>	<b>5,878</b>	<b>-1.0</b>
Raw Material Expenses	963	950	849	13.4	1,028	-6.3
Employee Expenses	361	357	388	-7.0	385	-6.2
Power and fuel	1,646	1,604	1,310	25.7	1,509	9.1
Freight	1,240	1,200	1,154	7.5	1,194	3.9
Others	942	980	1,024	-8.0	946	-0.5
<b>Production costs</b>	<b>5,152</b>	<b>5,091</b>	<b>4,725</b>	<b>9.0</b>	<b>5,063</b>	<b>1.8</b>

Source: Company, ICICI Direct Research

Exhibit 3: Change in estimates

(₹ Crore)	FY23E			FY24E			Comments
	Old	New	% Change	Old	New	% Change	
Revenue	9,770.0	9,418.6	-3.6	10,162.5	10,471.7	3.0	
EBITDA	1,629.4	1,428.9	-12.3	2,063.0	1,973.1	-4.4	
EBITDA Margin (%)	16.7	15.2	-151 bps	20.3	18.8	-146 bps	

Source: Company, ICICI Direct Research

## Key investment rationale

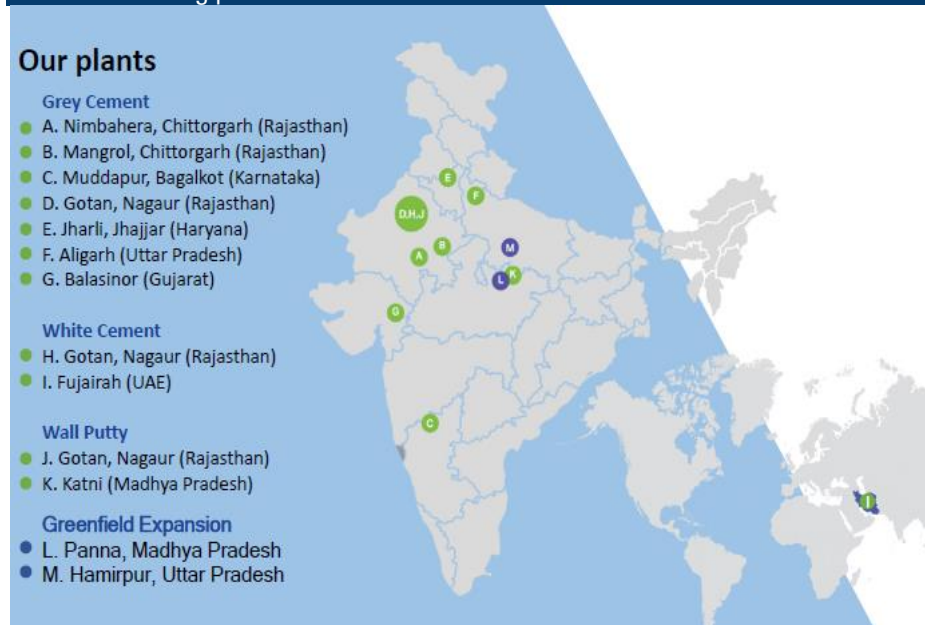
### To reach ~25 MT capacity by FY25E...

- The company has maintained a healthy growth trajectory in the past three years with revenue CAGR of 15.5% during FY20-22 led by phase I capacity expansion of 4.2 MT capacity, which got commissioned in FY21
- The company has added another 4 MT integrated cement capacity (22 MW WHRS) in the central region. The capacity has increased to 18.7 MT. These new capacities will cater to the markets of Madhya Pradesh and Uttar Pradesh. This expansion will make JKCL a leading player in the highly consolidated and rural demand-driven central market, increase its revenue diversification and fuel its future growth
- With the aim of reaching ~25 MT capacity by FY25E, the company now has announced further capex of ₹ 1,161 crore that will add another 5.5 MT (2 MT across existing locations, 1.5 MT GU in Ujjain and 2 MT GU at Prayagraj) along with additional clinker unit of 0.66 MT in Panna)
- Based on this announcement, the capex per tonne works out to only \$26/tonne. This should help the company boost its return ratios, going forward

### Phase-II expansion to keep debt at elevated but manageable levels

While we expect debt levels to remain higher in FY24E, improved OCF from new capacity would settle down debt/EBITDA at 1.8x from FY24E onwards after peaking at 2.4x in FY23E.

#### Exhibit 4: Existing plant locations of JK Cements



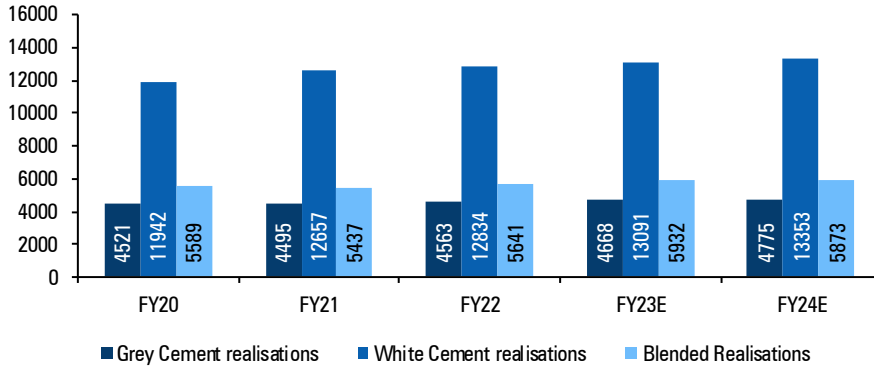
Source: Company, ICICI Direct Research

### Outstanding 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 highlighted earlier that out of total investment of ₹ 972 crore for UAE subsidiary, total impairment of ₹ 453 crore has been taken in the last three years. Hence, in our view, further impairment may come, going forward, if profitability of the UAE entity does not improve.

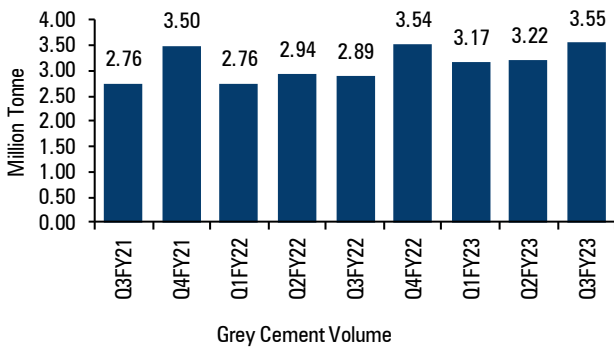
## Financial story in charts

Exhibit 5: Blended realisations to remain firm



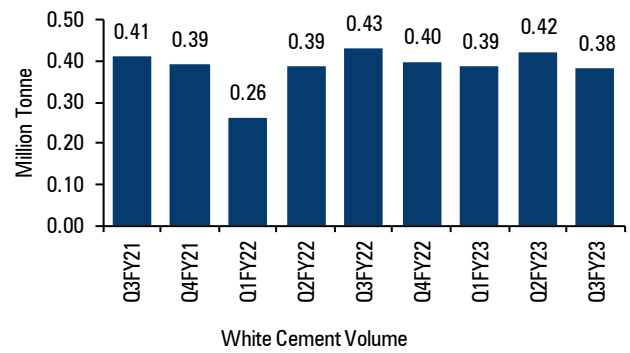
Source: Company, ICICI Direct Research

Exhibit 6: Grey cement grows 22.7% YoY



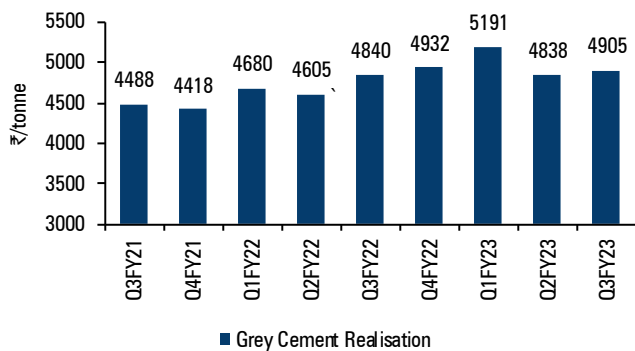
Source: Company, ICICI Direct Research

Exhibit 7: White cement volumes decline 11% YoY



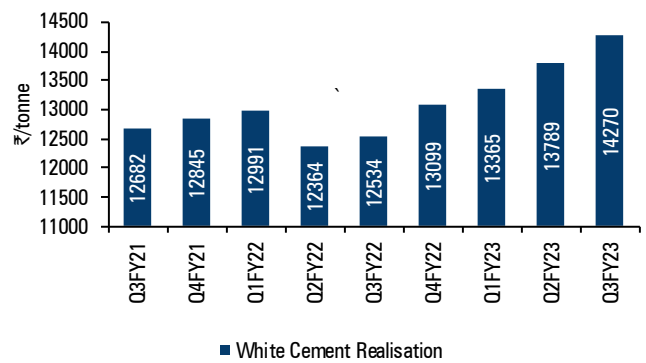
Source: Company, ICICI Direct Research

Exhibit 8: Grey cement realisations up over 1% QoQ



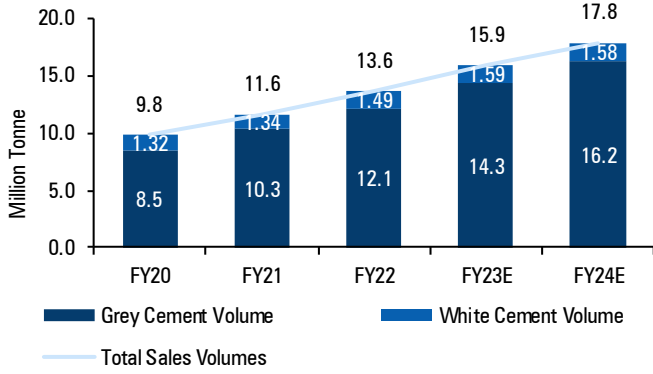
Source: Company, ICICI Direct Research

Exhibit 9: White cement realisations also higher on QoQ basis



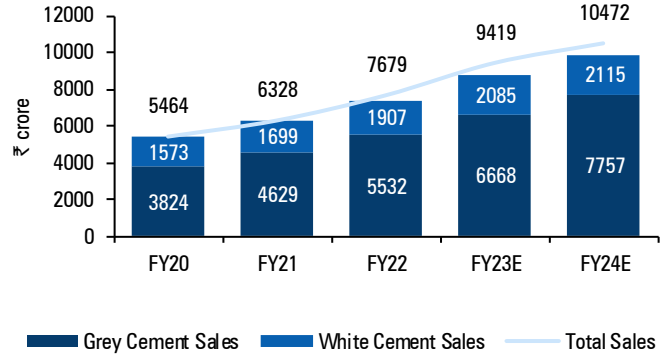
Source: Company, ICICI Direct Research

Exhibit 10: Expect volumes CAGR of 14.4% during FY22-24E



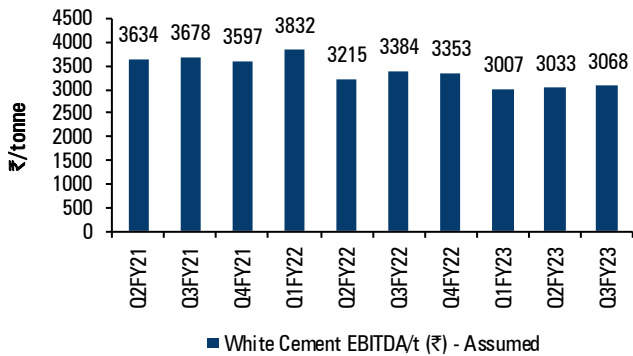
Source: Company, ICICI Direct Research

Exhibit 11: Revenues to grow at 16.8% CAGR over FY22-24E



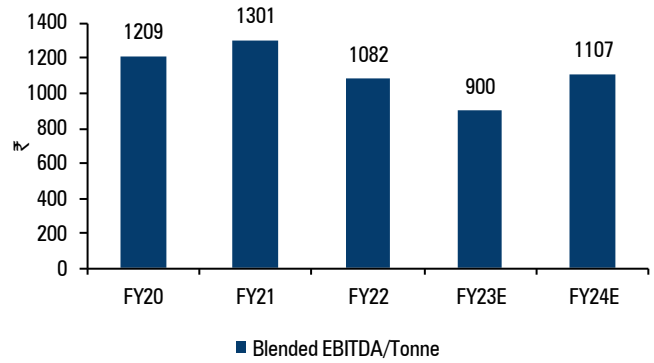
Source: Company, ICICI Direct Research

Exhibit 12: We assume white cement EBITDA of ₹ 3068/t for Q2FY23



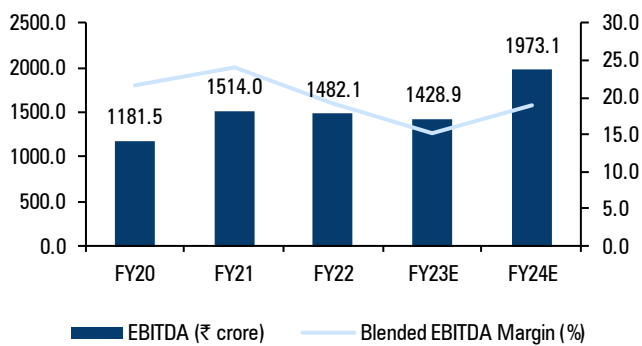
Source: Company, ICICI Direct Research

Exhibit 13: Annual EBITDA/t to stay healthy despite ongoing cost pressure



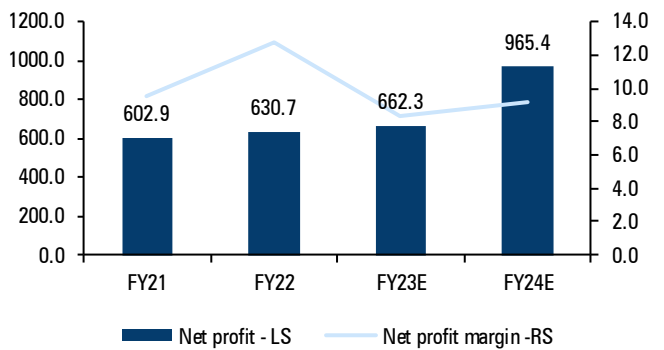
Source: Company, ICICI Direct Research

Exhibit 14: Absolute EBITDA to improve sharply from FY24 with inflation cooling down, stabilisation of new capacities



Source: Company, ICICI Direct Research

Exhibit 15: PAT growth trend



Source: Company, ICICI Direct Research

## Financial summary

Exhibit 8: Profit and loss statement					
	₹ crore				
(Year-end March)	FY20	FY21	FY22	FY23E	FY24E
<b>Total operating Income</b>	<b>5,463.8</b>	<b>6,328.3</b>	<b>7,678.6</b>	<b>9,418.6</b>	<b>10,471.7</b>
Growth (%)	9.7	15.8	21.3	22.7	11.2
Raw material cost	860.7	1051.0	1265.3	1548.2	1622.4
Employee Expenses	390.9	412.1	504.2	577.7	606.6
Power, Oil & Fuel	1009.1	1103.6	1570.7	2420.8	2365.0
Freight cost	1032.1	1239.8	1562.0	1921.8	2139.5
Other Expenses	989.4	1007.8	1294.3	1521.1	1765.1
Total Operating Exp.	4,282.2	4,814.3	6,196.4	7,989.6	8,498.6
<b>EBITDA</b>	<b>1,181.5</b>	<b>1,514.0</b>	<b>1,482.1</b>	<b>1,428.9</b>	<b>1,973.1</b>
Growth (%)	45.8	28.1	-2.1	-3.6	38.1
Depreciation	214.4	244.7	282.0	366.7	368.4
Interest	222.9	223.2	249.3	251.7	302.0
Other Income	85.9	113.3	142.8	101.9	160.0
Exceptional items	178.2	166.9	130.0	0.0	0.0
<b>PBT</b>	<b>652.0</b>	<b>992.6</b>	<b>963.6</b>	<b>912.4</b>	<b>1,462.7</b>
Total Tax	251.6	389.7	332.9	250.1	497.3
<b>PAT</b>	<b>400.4</b>	<b>602.9</b>	<b>630.7</b>	<b>662.3</b>	<b>965.4</b>
Growth (%)	23.4	50.6	4.6	5.0	45.8
<b>Adjusted EPS (₹)</b>	<b>51.8</b>	<b>78.0</b>	<b>81.6</b>	<b>85.7</b>	<b>124.9</b>

Source: Company, ICICI Direct Research

Exhibit 10: Balance sheet					
	₹ crore				
(Year-end March)	FY20	FY21	FY22	FY23E	FY24E
<b>Liabilities</b>					
Equity Capital	77.3	77.3	77.3	77.3	77.3
Reserve and Surplus	3,051.6	3,655.8	4,174.4	4,724.9	5,578.4
Total Shareholders funds	3,128.9	3,733.0	4,251.7	4,802.1	5,655.7
Total Debt	2,972.0	3,111.3	3,625.1	3,675.1	3,775.1
Deferred Tax Liability	409.4	593.9	722.9	738.5	738.5
Minority Interest / Others	0.0	0.0	0.0	0.0	0.0
<b>Total Liabilities</b>	<b>6,510.3</b>	<b>7,438.2</b>	<b>8,615.3</b>	<b>9,215.7</b>	<b>10,169.3</b>
<b>Assets</b>					
Gross Block	6,216.5	6,789.6	7,599.2	9,070.2	10,320.2
Less: Acc Depreciation	1,913.7	2,158.4	2,440.4	2,807.1	3,175.6
Net Block	4,302.7	4,631.2	5,158.7	6,263.1	7,144.6
Capital WIP	509.2	488.5	71.0	500.0	650.0
Total Fixed Assets	4,811.9	5,119.7	5,229.8	6,763.1	7,794.6
Intangible Asset	13.0	27.9	27.4	27.4	27.4
Investments	915.7	1,133.5	2,108.4	1,758.4	1,558.4
Inventory	627.2	686.7	1,113.6	847.6	701.7
Debtors	223.4	316.1	397.8	464.5	487.7
Loans and Advances	624.0	723.3	902.5	887.0	997.9
Cash	631.1	1,161.7	282.6	105.0	258.5
Total Current Assets	2,105.8	2,887.7	2,696.5	2,304.1	2,445.8
Creditors	452.6	559.2	669.1	696.7	774.6
Provisions	883.5	1,171.4	1,057.8	1,184.4	1,161.9
Total Current Liabilities	1,336.1	1,730.6	1,727.0	1,881.1	1,936.5
Net Current Assets	769.7	1,157.1	969.5	422.9	509.2
<b>Application of Funds</b>	<b>6,510.3</b>	<b>7,438.2</b>	<b>8,615.3</b>	<b>9,215.7</b>	<b>10,169.3</b>

Source: Company, ICICI Direct Research

Exhibit 9: Cash flow statement					
	₹ crore				
(Year-end March)	FY20	FY21	FY22	FY23E	FY24E
Profit after Tax	400.4	602.9	630.7	662.3	965.4
Add: Depreciation	214.4	244.7	282.0	366.7	368.4
(Inc)/dec in Current Assets	-385.3	-251.4	-952.5	235.5	-23.9
Inc/(dec) in CL and Provisions	-55.7	394.5	-3.6	154.2	55.4
<b>CF from operating activi</b>	<b>173.7</b>	<b>990.6</b>	<b>-43.4</b>	<b>1,418.7</b>	<b>1,365.3</b>
(Inc)/dec in Investments	393.5	-87.2	-116.4	0.0	0.0
(Inc)/dec in Fixed Assets	-860.3	-567.3	-391.6	-1,900.0	-1,400.0
Others	-14.1	53.9	-729.4	365.5	200.0
<b>CF from investing activi</b>	<b>-480.9</b>	<b>-600.7</b>	<b>-1,237.4</b>	<b>-1,534.5</b>	<b>-1,200.0</b>
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	616.7	139.3	513.8	50.0	100.0
Dividend paid & dividend tax	-84.3	-139.8	-139.8	-111.8	-111.8
Inc/(dec) in Sec. premium	0.0	0.0	0.0	0.0	0.0
Others	-77.4	141.0	27.7	0.0	0.0
<b>CF from financing activi</b>	<b>455.0</b>	<b>140.5</b>	<b>401.7</b>	<b>-61.8</b>	<b>-11.8</b>
Net Cash flow	147.8	530.5	-879.1	-177.6	153.5
Opening Cash	483.3	631.1	1,161.7	282.6	105.0
<b>Closing Cash</b>	<b>631.1</b>	<b>1,161.7</b>	<b>282.6</b>	<b>105.0</b>	<b>258.5</b>

Source: Company, ICICI Direct Research

Exhibit 11: Key ratios					
	₹ crore				
(Year-end March)	FY20	FY21	FY22	FY23E	FY24E
<b>Per share data (₹)</b>					
Adjusted EPS	51.8	78.0	81.6	85.7	124.9
Cash EPS	79.6	109.7	118.1	133.2	172.6
BV	404.9	483.1	550.2	621.5	732.0
DPS	9.0	15.0	15.0	12.0	0.0
Cash Per Share	81.7	150.3	36.6	13.6	33.5
<b>Operating Ratios (%)</b>					
EBITDA Margin	21.6	23.9	19.3	15.2	18.8
PAT Margin	7.3	9.5	8.2	7.0	9.2
Inventory days	40.0	37.9	42.8	38.0	27.0
Debtor days	14.9	18.2	18.9	18.0	17.0
Creditor days	30.2	32.3	31.8	27.0	27.0
<b>Return Ratios (%)</b>					
RoE	12.8	20.6	17.9	13.8	17.1
RoCE	16.2	18.6	15.6	12.6	17.4
RoIC	18.0	22.3	14.9	12.6	17.7
<b>Valuation Ratios (x)</b>					
P/E	53.5	35.5	33.9	32.3	22.2
EV / EBITDA	20.1	15.4	16.6	17.3	12.5
EV / Net Sales	4.3	3.7	3.2	2.6	2.4
Market Cap / Sales	3.9	3.4	2.8	2.3	2.0
Price to Book Value	6.8	5.7	5.0	4.5	3.8
<b>Solvency Ratios</b>					
Debt/EBITDA	2.5	2.1	2.4	2.6	1.9
Debt / Equity	0.9	0.8	0.9	0.8	0.7
Current Ratio	1.6	1.7	1.7	1.4	1.4
Quick Ratio	1.1	1.0	1.6	1.3	1.3

Source: Company, ICICI Direct Research



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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: < -15%



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