

May 31, 2023

Ramping up of capacity accelerates volume growth...

About the stock: With 20.7 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 UP and MP market for the said expansion

Q4FY23 Results: Healthy operational performance driven by increased realisations (QoQ). Incremental volume (~0.6 MT) driven by new capacity addition in Panna

- Grey cement volumes (consolidated) grew at healthy pace of 17% YoY to 4.1 MT. Standalone revenues (excluding Panna capacity) grew 5% YoY to ₹ 2384.4 crore (I-direct estimate: ₹ 2351.9 crore)
- EBITDA/t improved by ₹ 245/t (QOQ) to ₹ 913/t, which was higher than our expectation of ₹ 843/t (Q4FY22: ₹ 973/t). The major delta in profitability was driven by higher realisations
- Absolute EBITDA grew 38% QoQ (down 5% YoY) to ₹ 361.7 crore (I-direct estimate: ₹ 335.1 crore)

What should investors do? Post timely commissioning of new unit in Panna, we expect, growth momentum to accelerate in FY24E. Further newly announced capex at much lower cost/tonne will help in boosting ratios further.

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

Target Price and Valuation: We value the company at ₹ 3,780/share i.e. at 15x FY25E EV/EBITDA (earlier target price: ₹ 3350).

Key triggers for future price performance:

- The recent commissioning of 4 MT integrated grey cement capacity at Panna MP with split grinding unit and 22MW WHRS to boost topline
- In the next phase, the company will be adding another 5.5 MT GU capacity with total capex of ~₹ 1200 crore. On per tonne basis, this works out to capex only \$27/tonne. This will help in boosting return ratios, going forward
- Expect revenue, EBITDA CAGR of 15%, 28%, respectively, in FY223-25E

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 balance sheet
- BUY with a target price of ₹ 9000/share



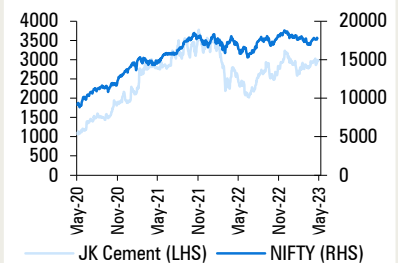
Particulars

Particulars	Amount
Mcap	₹ 24556 Crore
Debt (FY23)	₹ 3211 Crore
Cash & Invest (FY23)	₹ 1409 Crore
EV	₹ 26359 Crore
52 week H/L	₹ 3290 / 2004
Equity cap	₹ 77.3 crore
Face value	₹ 10

Shareholding Pattern

(in %)	Jun-22	Sep-22	Dec-22	Mar-23
Promoter	45.8	45.8	45.8	45.8
FII	16.1	15.6	15.9	15.5
DII	21.1	21.9	21.9	22.5
Others	17.0	16.6	16.4	16.2

Price Chart



Key Risks & Events

- Volatility in prices of key inputs like petcoke remains risk to our call.
- Lower than expected utilisation levels in new capacities

Research Analyst

Cheragh Sidhwa
cheragh.sidhwa@icicisecurities.com

Bharat Chhoda
bharat.chhoda@icicisecurities.com

Key Financial Summary (standalone)

Key Financials	FY19	FY20	FY21	FY22	FY23	4 Year CAGR (%)	FY24E	FY25E	2 Year CAGR (%)
Net Sales	4981	5464	6328	7679	8984	15.9	10633	11805	14.6
EBITDA	810	1182	1514	1482	1325	13.1	1819	2166	27.8
EBITDA (%)	16.3	21.6	23.9	19.3	14.7		17.1	18.3	
PAT	324	400	603	631	563	14.8	706	993	32.9
EPS (₹)	42.0	51.8	99.6	98.5	72.8		91.3	128.5	
EV/EBITDA	31.8	22.0	17.1	17.9	19.9		15.3	12.6	
EV/Tonne (\$)	281	219	177	170	159		168	140	
RoNW	11.2	12.8	20.6	17.9	12.0		13.3	16.1	
RoCE	13.9	19.0	20.6	18.0	13.4		14.3	18.1	

Source: Company, ICICI Direct Research. We expect company's wholly owned subsidiary Jaykaycem (Central) Ltd to be merged in FY24E

Key Highlights & takeaways...

Q4FY23 Results

- Grey cement volumes (consolidated) grew at a healthy pace of 17% YoY to 4.1 MT (I-direct estimate: 4.0 MT) in Q4FY23. The growth was largely driven by recent commissioning of units in Panna & Hamirpur, Central region (~4 MT). Overall capacity utilisation rate stood at 83%, while new capacity in Central India has already achieved 60% utilisation rates. Sale of white cement grew by 6% YoY to 0.42 MT (CU: 94%). On a standalone basis (excluding Panna capacity), blended cement sales volume stood flattish YoY at 4.0 MT. Furthermore, despite weak pricing environment, company has managed to improve realisations on QoQ basis (through increased share of trade and blended cement). Average realisations grew 3.4% QoQ (~₹ 200/t) to ₹ 6017/t, whereas grey cement realisations grew 3% QoQ to ₹ 5059/t. Standalone revenues (excluding Panna capacity) grew by 5% YoY to ₹ 2384.4 crore. The demand continues to remain steady in Q1FY24 as management expects industry to grow by 10% YoY. The company expects ~700-800 bps higher growth than the industry in FY24E (~15%). We build in volume CAGR of 13% in FY23-25E an expect company to clock in grey cement volumes of ~18 MT by FY25E
- Owing to softness in fuel prices, power & fuel cost declined by ~ ₹ 70/t (QoQ) to ₹ 1578/t. Overall cost of production declined marginally by ₹ 48/t (QoQ) to ₹ 5104/t (I-direct estimate: ₹ 5050/t). EBITDA/t improved by ₹ 245/t (QoQ) to ₹ 913/t which was higher than our expectation of ₹ 843/t (Q4FY22: ₹ 973/t). The major delta in profitability was driven by higher realisations. On a per Kcal basis, fuel cost has softened from ₹ 2.6 to ₹ 2.4/kcal in Q4FY23. Pet coke prices (landed cost) have further declined to ₹ 2.0/Kcal in June. The management expects the fuel cost to decline by ₹ 75-100/t in Q1FY24. Furthermore, with gradual ramping up of new capacities (Panna plant expected to operate at 70% utilisation) we expect company to register EBITDA/t of ₹ 1000+ in FY24E. We bake in EBITDA CAGR of 28% in FY23-25E
- The company is looking to enhance its share of premium cement from current 10% (of trade sales) to ~15% by FY24E and 20% over the longer term. Company has ~25% share of premium cement in the Southern region whereas the share continues to remain low in the Northern region as it has just recently launched new products in the market. Generally premium cement tends to have prices higher by ₹ 25/bag with profitability higher by ~₹ 5/bag
- The company in FY23 successfully commissioned 4 MT integrated cement capacity (22 MW WHRS) in the central region (in Panna & Hamirpur). These new capacities will cater to the markets of Madhya Pradesh and Uttar Pradesh and make JKCL a leading player in the highly consolidated and rural demand-driven Central market, increase its revenue diversification and fuel its future growth. Furthermore, it has also commissioned 2 MT of grinding units (out of the 5.5 MT proposed expansion) taking the overall capacity to 20.7 MT. The management is targeting to commission greenfield grinding unit in Ujjain (1.5 MT) by Q4FY24 and Prayagraj (2.0 MT) by Q2FY25. The company is well on track to achieve 25 MT capacity by FY25E
- On the balance sheet front, overall capex (including acquisition of new paint business) stood at ₹ 1900 crore for FY23E. Nearly 55% of the capex requirements were funded through internal accruals while rest through debt. Net borrowings (including WC loans) increased from ₹ 2570 crore in FY22 to ₹ 3374 crore as on FY23 (D/E: 0.7x). With major capex behind us, we expect debt levels to decline from FY25E onwards. With steady OCF generation of ₹ 2700 and capex of ₹ 2000 crore during FY23-25E, we expect net debt levels to reduce to ~ ₹ 2600 crore, with Debt/EBITDA at <2x in FY25E**

JK Cement - ESG Disclosure Score*			
Score	FY20	FY21	FY22
Environmental	40.8	62.0	68.8
Social	24.2	38.0	41.5
Governance	90.6	90.6	90.6
Overall ESG Score	51.9	63.5	67.0

Source: Bloomberg, ICICI Direct Research, *Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures

Key Conference call takeaways

- Despite healthy volume trends, price hike attempts were not sustained by the market. Pricing environment continues to remain challenging and company does not anticipate any material movement in prices to happen before monsoons now
- Post the commissioning of the new Panna unit, the company is now better placed to serve the northern region (earlier used to supply from Rajasthan unit) and subsequently reduce the lead distance to the key markets. Lead distance declined to 438 Km (470 Km in Q3FY23) and expects to settle down to 420-425 km in the medium term
- Average fuel cost for the company was at ₹ 12000/t for Q4FY23. With reduction in pet coke prices company is targeting ~₹ 75-100/t of cost savings in the ensuing quarters. Currently the pet coke prices are hovering in the range of ₹125-130/t. Pet coke constituted ~75% of fuel mix. Company is targeting EBITDA margin in the range of 17-18% in FY24E (FY23: 15.3%)
- The company has guided for 15% grey cement volume growth for FY24E and expects the newly commissioned central capacity to incrementally contribute ~2.5- 3 MT
- The company has guided for capex of ₹ 1200 -1300 crore for FY24E pertaining to upcoming capacities in Ujjain and Prayagraj and WHRS in Panna unit. Company may incur small capex of ₹ 50 crore towards its newly acquired paint business. The capex intensity to be much lower in FY25E at ~ ₹ 800 crore. The next leg of capacity expansion could probably be a brownfield capex in Panna (may announce by Q1FY25E)
- Despite weak pricing environment, grey cement realisation increased QoQ owing to increase in share of trade sales (up 200 bps YoY to 69%) and blended cement ratio (up 600 bps YoY to 68%). The increase in realisation was also a factor of lower clinker sales as compared to Q3FY23
- The company would be eligible for subsidy for the newly commissioned plant in Panna, MP from Q2FY24E onwards (~₹ 200/t)
- Company expects to merge its wholly owned subsidiary, JayKayCem (Central) by Q2FY24E
- The company has set ambitious plans for the paint segment and targets revenue from the segment worth ₹ 150-180 crore in FY24E and ₹ 280-300 crore in FY25E
- Out of the total capacity of 20.7 MT JK has ~9MT in Central region (~40% of overall capacity). Company intends to have at least 8-12% market share in the regions which it operates in

Exhibit 1: Variance Analysis (Domestic Performance)

	Q4FY23	Q4FY23E	Q4FY22	YoY (%)	Q3FY23	QoQ (%)	Comments
Total Operating Income	2384.4	2351.9	2269.0	5.1	2291.6	4.1	
Other Income	34.0	35.0	41.2	-17.3	18.2	86.8	
Raw Material Expenses	382.3	392.7	423.3	-9.7	378.4	1.0	
Employee Expenses	137.8	147.0	121.6	13.4	142.0	-3.0	
Power & Fuel	625.5	622.5	492.9	26.9	647.0	-3.3	
Freight cost	498.6	484.1	461.9	8.0	487.6	2.3	
Others	378.5	370.4	386.7	-2.1	370.2	2.2	
EBITDA	361.7	335.2	382.7	-5.5	266.4	35.8	
EBITDA Margin (%)	15.2	14.3	16.9	-170 bps	11.6	354 bps	
Interest	70.5	63.0	68.9	2.4	65.8	7.3	
Depreciation	91.5	94.0	75.7	20.9	90.3	1.4	
PBT before Exceptionals	233.7	213.2	279.3	-16.3	128.6	81.7	
Total Tax	73.7	53.3	63.0	17.0	32.0	130.2	
PAT	160.0	159.9	86.3	85.4	96.6	65.6	

Key Metrics

Volume (MT)	4.0	4.0	3.9	1.0	3.9	1.1	On a consolidated basis (including Panna Capacity), grey cement volume grew by 17% YoY to 4.1 MT. Sale of white cement grew by 6% YoY to 0.42 MT (CU: 94%)
Realisation (₹)	6,003	5,880	5,770	4.0	5,830	3.0	
EBITDA per Tonne (₹)	911	838	973	-6.4	678	34.4	The major delta in profitability was driven by higher realisations.

Per tonne	Q4FY23	Q4FY23E	Q4FY22	YoY (%)	Q3FY23	QoQ (%)	
Net Sales realisation	6,003	5,880	5,770	4.0	5,830	3.0	
Raw Material Expenses	963	982	1,076	-10.6	963	0.0	
Employee Expenses	347	368	309	12.2	361	-4.0	
Power and fuel	1,575	1,556	1,254	25.6	1,646	-4.3	Fuel cost declined from ₹ 2.6/kcal to ₹ 2.4 Kcal (QoQ)
Freight	1,255	1,210	1,175	6.9	1,240	1.2	
Others	953	926	983	-3.1	942	1.2	
Production costs	5,092	5,042	4,797	6.2	5,152	-1.2	

Source: Company, ICICI Direct Research

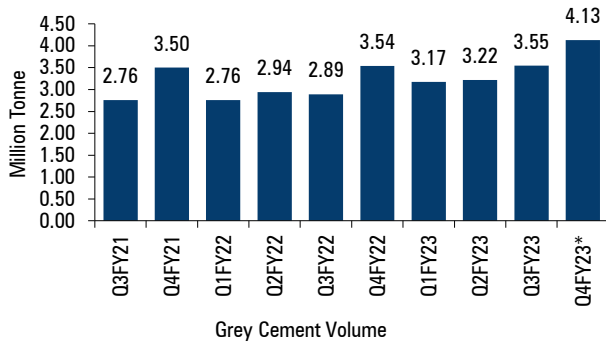
Exhibit 2: Change in estimates

(₹ Crore)	FY24E			FY25E
	Old	New	% Change	Introduced
Revenue	10,471.7	10,632.6	1.5	11,804.6
EBITDA	1,950.0	1,819.0	-6.7	2,165.7
EBITDA Margin (%)	18.6	17.1	-151 bps	18.3

Source: Company, ICICI Direct Research

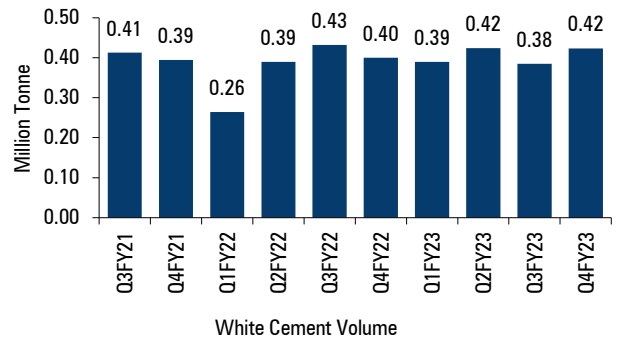
Financial story in charts

Exhibit 3: Grey cement grows 17% YoY (Consolidated)



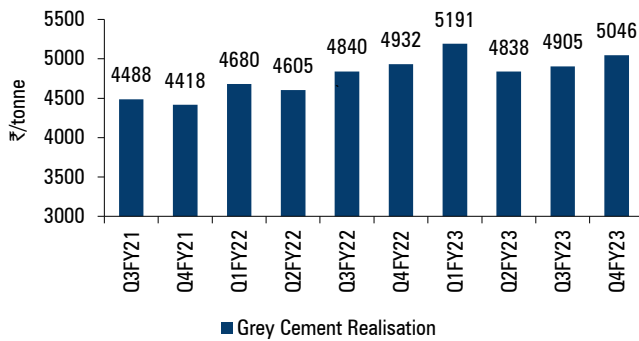
Source: Company, ICICI Direct Research. Q4FY23 volumes include Central Capacity

Exhibit 4: White cement volumes grow by 6% YoY



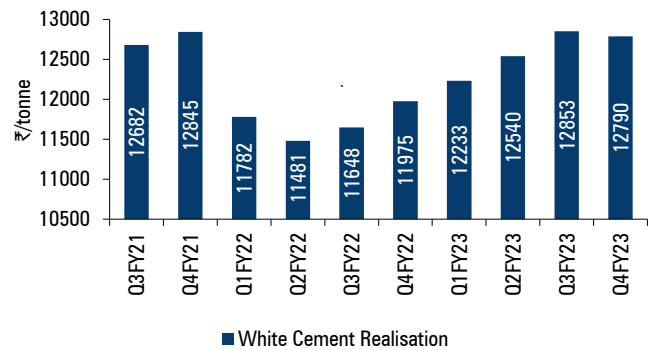
Source: Company, ICICI Direct Research

Exhibit 5: Grey cement realisations up over 3% QoQ



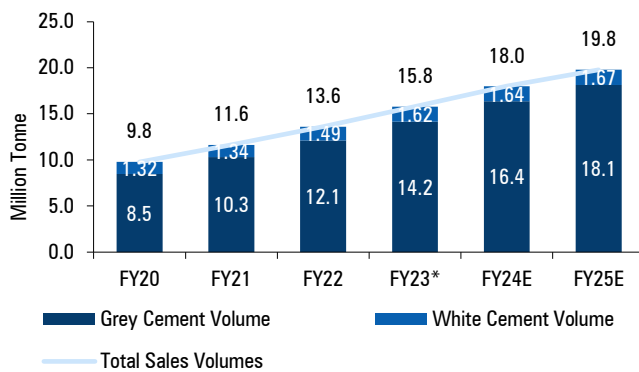
Source: Company, ICICI Direct Research

Exhibit 6: White cement realisations flattish QoQ



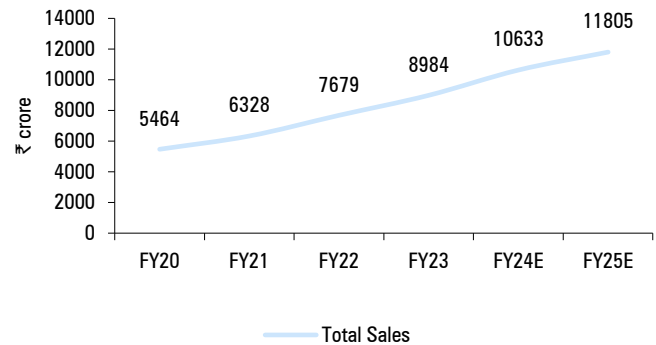
Source: Company, ICICI Direct Research

Exhibit 7: Expect volumes CAGR of 12% during FY23-25E



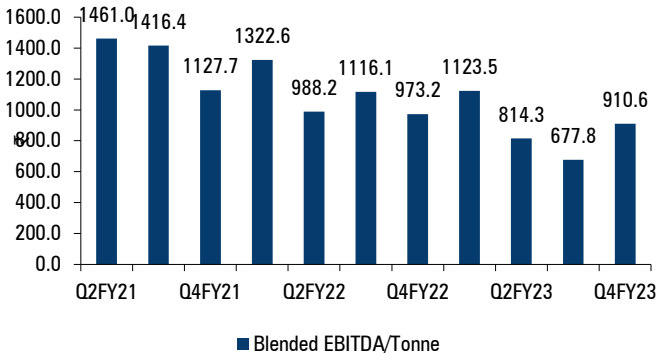
Source: Company, ICICI Direct Research. FY23 volumes include Central Capacity (0.7 MT)

Exhibit 8: Revenues trend



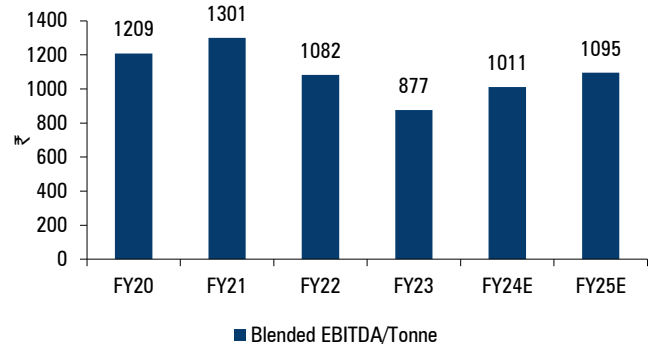
Source: Company, ICICI Direct Research.

Exhibit 9: Higher realisations aids profitability



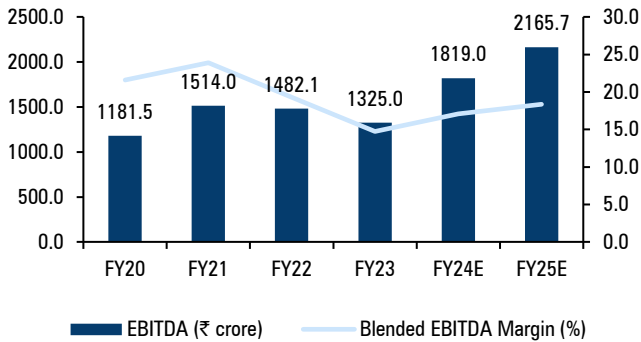
Source: Company, ICICI Direct Research

Exhibit 10: Annual EBITDA/t expected to surpass ₹ 1000/t in FY24E



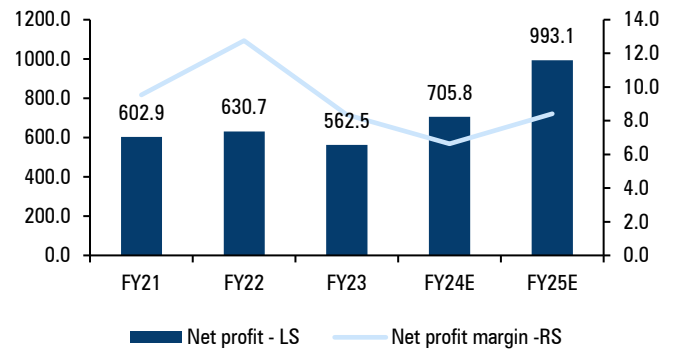
Source: Company, ICICI Direct Research

Exhibit 11: Absolute EBITDA to improve sharply from FY24 with cooling down of inflation and stabilisation of new capacities



Source: Company, ICICI Direct Research

Exhibit 12: PAT growth trend



Source: Company, ICICI Direct Research

Financial summary

Exhibit 8: Profit and loss statement					
	₹ crore				
(Year-end March)	FY21	FY22	FY23P	FY24E*	FY25E
Total operating Income	6,328.3	7,678.6	8,984.3	10,632.6	11,804.6
Total Operating Exp.	4,814.3	6,196.4	7,659.3	8,813.7	9,638.9
EBITDA	1,514.0	1,482.1	1,325.0	1,819.0	2,165.7
Growth (%)	28.1	-2.1	-10.6	37.3	19.1
Depreciation	244.7	282.0	361.5	539.0	571.2
Interest	223.2	249.3	260.5	371.6	295.7
Other Income	113.3	142.8	97.3	100.0	120.0
Exceptional items	166.9	130.0	0.0	0.0	0.0
PBT	992.6	963.6	800.3	1,008.3	1,418.7
Total Tax	389.7	332.9	237.8	302.5	425.6
PAT	602.9	630.7	562.5	705.8	993.1
Growth (%)	50.6	4.6	-10.8	25.5	40.7
Adjusted EPS (₹)	78.0	81.6	72.8	91.3	128.5

Source: Company, ICICI Direct Research. We expect company's wholly owned subsidiary Jaykaycem (Central) Ltd to be merged in FY24E

Exhibit 9: Cash flow statement					
	₹ crore				
(Year-end March)	FY21	FY22	FY23P	FY24E*	FY25E
Profit after Tax	602.9	630.7	562.5	705.8	993.1
Add: Depreciation	244.7	282.0	361.5	539.0	571.2
(Inc)/dec in Current Assets	-146.9	-623.6	310.4	-205.7	-190.5
Inc/(dec) in CL and Provisions	-63.5	161.7	-39.3	155.3	125.4
CF from operating activities	637.1	450.9	1,195.1	1,194.5	1,499.3
(Inc)/dec in Investments	-316.1	-1,287.6	-530.0	0.0	336.3
(Inc)/dec in Fixed Assets	-567.3	-391.6	-400.7	-1,300.0	-700.0
Others	2.4	-31.7	-4.7	0.0	0.0
CF from investing activities	-880.9	-1,710.9	-935.3	-1,300.0	-363.7
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	557.7	247.0	-16.2	-220.0	-1,086.2
Dividend paid & others	1.3	-112.2	-112.7	-115.9	-115.9
Others	215.5	246.1	154.3	89.2	5.7
CF from financing activities	774.5	380.9	25.4	-246.6	-1,196.4
Net Cash flow	530.6	-879.2	285.2	-352.2	-60.8
Opening Cash	631.1	1,161.8	282.6	567.7	215.6
Closing Cash	1,161.8	282.6	567.7	215.6	154.7

Source: Company, ICICI Direct Research. We expect company's wholly owned subsidiary Jaykaycem (Central) Ltd to be merged in FY24E

Exhibit 10: Balance sheet					
	₹ crore				
(Year-end March)	FY21	FY22	FY23P	FY24E*	FY25E
Liabilities					
Equity Capital	77.3	77.3	77.3	77.3	77.3
Reserve and Surplus	3,655.8	4,174.4	4,624.2	5,214.2	6,091.4
Total Shareholders funds	3,733.1	4,251.7	4,701.5	5,291.4	6,168.6
Total Debt	2,980.4	3,227.4	3,211.2	4,372.3	3,286.1
Deferred Tax Liability	593.9	738.5	835.8	919.4	919.4
Minority Interest / Others	407.6	509.1	566.0	571.7	577.4
Total Liabilities	7,715.1	8,726.7	9,314.6	11,154.8	10,951.5
Assets					
Gross Block	6,471.1	7,212.8	7,517.5	11,717.5	12,417.5
Less: Acc Depreciation	1,839.9	2,054.0	2,415.5	2,954.5	3,525.7
Net Block	4,631.2	5,158.8	5,102.1	8,763.1	8,891.8
Capital WIP	488.5	71.0	168.8	168.8	168.8
Total Fixed Assets	5,119.7	5,229.8	5,270.9	8,931.9	9,060.7
Intangible Asset	27.9	27.4	25.5	25.5	25.5
Investments	1,212.8	2,500.4	3,030.4	1,511.4	1,175.1
Inventory	686.7	1,113.6	777.9	873.9	970.2
Debtors	316.1	397.8	371.2	439.3	487.7
Loans and Advances	494.2	609.1	661.1	702.6	748.4
Cash	1,161.8	282.6	567.7	215.6	154.7
Total Current Assets	2,658.7	2,403.1	2,377.8	2,231.4	2,361.0
Creditors	550.0	669.2	604.2	715.0	793.8
Provisions	126.6	127.2	137.8	140.5	143.3
Other CL	777.3	819.2	834.3	876.0	919.8
Total Current Liabilities	1,453.9	1,615.6	1,576.3	1,731.6	1,857.0
Net Current Assets	1,204.8	787.5	801.6	499.8	504.0
Other NCA	149.9	181.6	186.3	186.3	186.3
Application of Funds	7,715.1	8,726.7	9,314.6	11,154.8	10,951.5

Source: Company, ICICI Direct Research. We expect company's wholly owned subsidiary Jaykaycem (Central) Ltd to be merged in FY24E

Exhibit 11: Key ratios					
	₹ crore				
(Year-end March)	FY21	FY22	FY23P	FY24E*	FY25E
Per share data (₹)					
Adjusted EPS	78.0	81.6	72.8	91.3	128.5
Cash EPS	109.7	118.1	119.6	161.1	202.5
BV	483.1	550.2	608.5	684.8	798.3
DPS	15.0	15.0	15.0	15.0	15.0
Cash Per Share	150.4	36.6	73.5	27.9	20.0
Operating Ratios (%)					
EBITDA Margin	23.9	19.3	14.7	17.1	18.3
PAT Margin	12.2	9.9	6.3	6.6	8.4
Inventory days	39.6	52.9	31.6	30.0	30.0
Debtor days	18.2	18.9	15.1	15.1	15.1
Creditor days	31.7	31.8	24.5	24.5	24.5
Return Ratios (%)					
RoE	20.6	17.9	12.0	13.3	16.1
RoCE	20.6	18.0	13.4	14.3	18.1
Valuation Ratios (x)					
P/E	40.7	38.9	43.7	34.8	24.7
EV / EBITDA	17.1	17.9	19.9	15.3	12.6
EV / Net Sales	4.1	3.5	2.9	2.6	2.3
Market Cap / Sales	3.9	3.2	2.7	2.3	2.1
Price to Book Value	6.6	5.8	5.2	4.6	4.0
Solvency Ratios					
Debt/EBITDA	2.0	2.2	2.4	2.4	1.5
Debt / Equity	0.8	0.8	0.7	0.8	0.5
Current Ratio	0.9	1.3	1.4	1.8	1.2
Quick Ratio	1.0	1.3	1.1	1.2	1.2

Source: Company, ICICI Direct Research. We expect company's wholly owned subsidiary Jaykaycem (Central) Ltd to be merged in FY24E

RATING RATIONALE

ICICI Direct endeavours to provide objective opinions and recommendations. ICICI Direct assigns ratings to its stocks according to their notional target price vs. current market price and then categorizes them as Buy, Hold, Reduce and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock

Buy: > 15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: < -15%



Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

**ICICI Direct Research Desk,
ICICI Securities Limited,
Third Floor, Brillanto House,
Road No 13, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com**

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Name of the Compliance officer (Research Analyst): Mr. Anoop Goyal

Contact number: 022-40701000 E-mail Address: complianceofficer@icicisecurities.com

For any queries or grievances: Mr. Prabodh Avadhoot Email address: headservicequality@icicidirect.com Contact Number: 18601231122

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