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JK Cement

BUY
Maintained

Market share gains, better profitability to drive
re-rating

Rs2,137

Company update

Cement

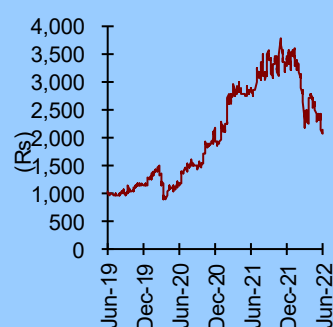
Target price: Rs3,170

Shareholding pattern

	Sep '21	Dec '21	Mar '22
Promoters	57.6	51.5	45.8
Institutional investors	37.5	37.5	37.1
MFs and other	18.8	18.7	19.5
Insurance Cos.	1.2	1.2	1.1
FII	17.5	17.6	16.5
Others	4.9	11.0	17.1

Source: CMIE

Price chart



In our view, JKCE would emerge as the sixth largest cement group in India with 21mnte grey plus white cement / putty capacity by Q3FY23 with potential to increase the same by >50% via brownfield expansion at ~US\$70/te at Panna unit (MP) in medium term. Unlike mid-cap peers, it derives nearly 25% EBITDA (Rs4bn) from white cement / putty portfolio which provides steady-state cashflow to fund its grey cement expansions. The company enjoys better grey cement market mix with no exposure to East and <10% exposure to South markets where prices remain volatile due to over-supply concerns. JKCE continues to gain market share with 9% volume CAGR over FY13-22E vs <5% for industry and is expected to post 12% volume CAGR over FY22-24E. Its standalone blended EBITDA/te is unlikely to fall below Rs1,000/te even in FY23E vs Rs1,108/te in FY22E despite cost pressures. Hence, we believe, JKCE may trade at a premium to its long term historical average once the recent concerns around sharp fuel cost escalation recede. Maintain BUY with an unchanged target price of Rs3,170/sh based on 13x FY24E EV/E, implying 50% upside. JKCE remains our high conviction preferred pick in the sector. Key risks: Lower demand / pricing and high cost escalation.

- **JKCE may still deliver blended EBITDA/te of ~Rs1000/te during H1FY23 amidst sharp cost escalation.** JKCE's key markets have seen ~7% QoQ price increase during Q1FY23 which should suffice for QoQ cost increases and hence, blended EBITDA/te is unlikely to fall QoQ vs Rs973/te in Q4FY22. Its volume may grow ~15% YoY on a low base during Q1FY23 – broadly in-line with industry average. Seasonally, Q2FY23 may see 15-20% QoQ increase in white cement / putty volumes which would support blended EBITDA/te in Rs900-1,000/te range.
- **Market share gains to continue for JKCE:** The company has posted 9% volume CAGR over FY13-22E and 20% CAGR over FY20-22E vs <5% industry volume CAGR over the same period. 4mnte Panna expansion (Central India) may get commissioned in Q3FY23 which should support 12%+ volume CAGR over the next two years. Panna has the potential for brownfield expansions; it can add another 10-11mnte at ~US\$70/te allowing JKCE to continue to gain market share in medium term.
- **Better market mix to aid profitability:** North would still constitute ~60% of JKCE's capacity even after current 4mnte Panna expansion. Utilisation in the North is likely to remain >85% over FY22-25E - the highest vs all other regions. Hence, price and margins are likely to remain firm. Besides, Panna's profitability may be in-line with the company's average in the medium term owing to WHRS and incentives.

Research Analysts:

Krupal Maniar, CFA

krupal.maniar@icicisecurities.com
+91 22 6807 7254

Harsh Mittal

harsh.mittal@icicisecurities.com
+91 22 6807 7565

Market Cap	Rs165bn/US\$2.1bn
Reuters/Bloomberg	JKCE.BO/JKCE IN
Shares Outstanding (mn)	77.3
52-week Range (Rs)	3783/2189
Free Float (%)	54.2
FII (%)	16.5
Daily Volume (US\$'000)	5,764
Absolute Return 3m (%)	(6.1)
Absolute Return 12m (%)	(24.0)
Sensex Return 3m (%)	(6.2)
Sensex Return 12m (%)	1.4

Year to Mar	FY21	FY22	FY23E	FY24E
Revenue (Rs mn)	66,061	79,908	93,033	1,05,445
EBITDA (Rs mn)	15,777	14,824	15,821	21,018
Net Income (Rs mn)	7,487	6,729	7,146	10,562
% Chg YoY	52.1	(10.1)	6.2	47.8
P/E (x)	22.0	24.5	23.1	15.6
CEPS (Rs)	136.5	131.4	141.0	193.2
EV/E (x)	11.5	13.4	12.6	9.2
Dividend Yield	0.7	0.7	0.9	1.1
RoCE (%)	12.7	10.3	9.6	12.5
RoE (%)	22.1	16.7	15.5	19.8

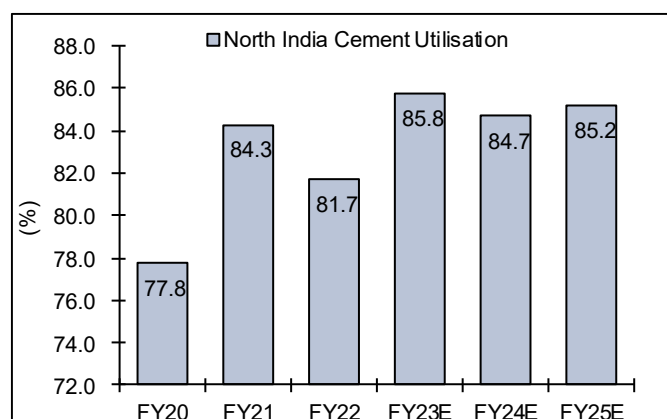
Please refer to important disclosures at the end of this report

- **Consolidated net debt likely to peak-out at Rs35bn by FY23E and may fall below Rs20bn by FY25E.** Net debt to EBITDA may fall from 2.4x in FY23E to <1x in FY25E. We factor 12% volume CAGR over FY22-24E and expect standalone blended EBITDA/te to inch closer to Rs1,200/te by FY24E vs Rs1,334/te in FY21.
- **JKCE may trade at a premium to its long term historical average once recent concerns around sharp fuel cost escalation recede, in our view,** owing to market share gains and better than industry average profitability. Even after >40% stock price correction in the past one year, the stock has delivered 15%+ 5-year CAGR return and 30%+ 10-year CAGR return. JKCE remains our high conviction preferred pick in the sector.

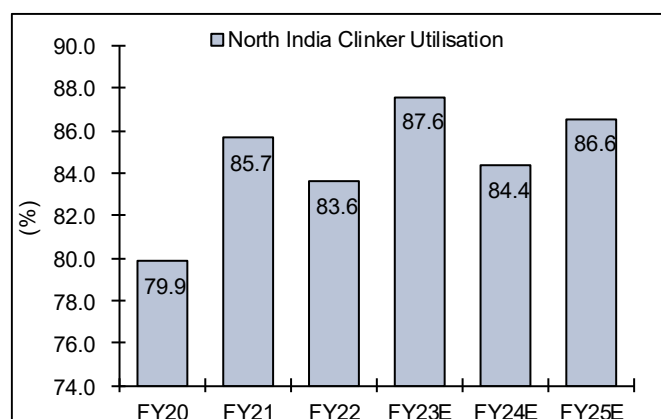
Table 1: Production capacity details

Plant Location	State	Grey Cement	White Cement	Wall Putty	Thermal Power	Waste Heat Recovery
Unit		(MTPA)			(MW)	
Nimbahera, Chittorgarh	Rajasthan	4.3		-	20	13.2
Gotan, Nagaur*	Rajasthan	0.5	0.6	0.6	7.5	-
Mangrol, Chittorgarh	Rajasthan	3.3		-	25	26.9
Jharli, Jhajjar	Haryana	1.5		-	-	-
North- Total		9.5	0.6	0.6	52.5	40.1
Katni	Madhya Pradesh	-	-	0.7	-	-
Aligarh	Uttar Pradesh	1.5		-	-	-
Central- Total		1.5		0.7	-	-
Muddapur, Bagalkot	Karnataka	3		-	50	-
South- Total		3	-	-	50	-
Balasinor	Gujarat	0.7		-	-	-
West- Total		0.7	-	-	-	-
Fujairah, UAE*	-	-	0.6	-	-	-
Total		14.7	1.2	1.3	102.5	40.1
Planned capacities by FY24E						
Panna	Madhya Pradesh	2				22
Hamirpur	Uttar Pradesh	2				
Total capacities		18.7	1.2	1.3	102.5	62.1

Source: Company data, I-Sec research, * Capacity can be altered for 1mtpa grey cement production

Chart 1: North India Cement Utilisation

Source: Company data, I-Sec research.

Chart 2: North India Clinker Utilisation

Source: Company data, I-Sec research.

Table 2: JK Cement shall continue to gain market share over next two years

Volume (mnte)	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	CAGR 13-22	CAGR 22-24
UTCEM	44.6	45.8	49.4	52.6	53.4	64.6	85.9	82.3	86.2	94.2	104.3	115.3	8.7%	10.6%
SRCM	12.5	14.2	15.9	18.6	20.6	22.5	28.7	28.7	30.0	31.2	34.7	38.5	10.7%	11.1%
DBEL	6.0	10.1	10.9	13.0	15.3	17.0	18.7	19.3	20.7	22.2	24.2	26.6	15.6%	9.5%
ICEM	11.2	11.3	10.3	10.0	11.0	11.2	12.4	11.0	8.9	9.1	9.8	10.6	-2.3%	8.0%
JKCE	6.4	6.1	7.2	8.1	8.2	9.4	10.2	10.2	11.9	14.0	15.2	17.5	9.1%	11.9%
TRCL	8.5	8.6	7.7	7.2	8.3	9.3	11.1	11.2	10.0	11.0	12.4	13.9	3.0%	12.0%
JKLC	5.3	5.6	6.0	7.3	7.9	9.4	11.1	10.0	10.5	11.2	11.8	12.4	8.7%	5.4%
ORCMNT	4.1	4.2	4.1	4.4	5.6	5.7	6.4	5.8	5.1	5.5	5.9	6.4	3.3%	8.0%
PRSCM	4.7	4.8	5.6	5.3	5.4	5.6	6.3	5.7	5.8	5.2	5.6	6.0	1.1%	7.5%
HEIM			4.3	4.4	4.5	4.6	4.9	4.7	4.5	4.8	5.0	5.3	1.6%	5.0%
NVCL	6.8	7.2	9.4	9.6	9.7	12.0	12.6	12.2	16.0	17.8	19.5	21.0	11.2%	8.7%
Total	110.1	117.9	126.4	136.1	145.4	166.8	203.4	196.6	205.0	221.4	243.4	268.3	8.1%	10.1%
Industry	245.6	252.9	265.9	283.2	289.0	314.5	351.6	342.9	337.1	361.5	393.6	424.6	4.4%	8.4%

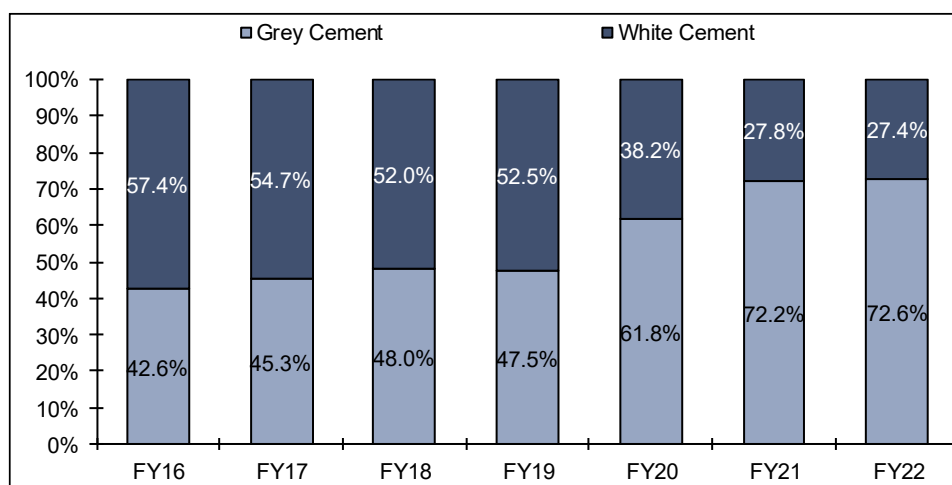
Source: Company data, I-Sec research.

Table 3: JK Cement enjoys better unit profitability than industry

	EBITDA/te* (Rs)					Growth YoY (%)				
	FY20	FY21	FY22	FY23E	FY24E	FY20	FY21	FY22	FY23E	FY24E
UTCEM- consol.	1,128	1,341	1,222	1,126	1,385	31.8	19.0	(8.9)	(7.8)	23.0
SRCM	1,286	1,347	1,170	1,106	1,326	36.2	4.7	(13.1)	(5.5)	19.9
DALBHARA	1,092	1,346	1,062	892	1,054	4.5	23.3	(21.1)	(16.0)	18.1
NUVOCO	1,060	915	842	757	1,009	44.9	(13.7)	(7.9)	(10.1)	33.2
ICEM	530	902	530	376	692	10.2	70.1	(41.3)	(28.9)	84.0
JKCE	1,186	1,320	1,061	1,040	1,202	45.2	11.4	(19.6)	(2.0)	15.6
TRCL	991	1,529	1,136	860	1,222	7.6	54.3	(25.7)	(24.3)	42.1
JKLC	794	898	849	726	901	95.1	13.1	(5.4)	(14.5)	24.0
ORCMNT	659	1,090	1,079	849	938	35.5	65.4	(1.1)	(21.3)	10.5
PRSMJ	889	963	710	630	854	6.6	8.2	(26.3)	(11.2)	35.6
HEIM	1,122	1,129	867	738	1,004	13.7	0.7	(23.3)	(14.8)	36.0
Weighted average	1,063	1,252	1,076	963	1,201	29.0	17.8	(14.1)	(10.5)	24.7

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

Chart 3: White Cement contributed ~27% to the overall EBITDA in FY22



Source: Company data, I-Sec research

Table 4: Performance trend and assumptions

	FY20	FY21	FY22	FY23E	FY24E
Grey cement ('000 te)					
Capacity	14,672	14,672	14,972	18,972	18,972
Production	8,447	10,299	12,125	13,216	15,331
Capacity utilisation (%)	79	74	85	73	85
Growth (%)	(1.5)	21.9	17.7	9.0	16.0
Realisation (Rs/te)	4,527	4,494	4,774	5,203	5,151
Growth (%)	13.2	(0.7)	6.2	9.0	(1.0)
White cement ('000 te)					
Capacity	1,200	1,200	1,200	1,200	1,200
Production	1,021	829	955	997	1,041
Capacity utilisation (%)	85	69	80	83	87
Growth (%)	8.8	(18.8)	15.2	4.4	4.4
Realisation (Rs/te)	10,684	11,403	11,148	11,355	11,532
Growth (%)	0.1	6.7	(2.2)	1.9	1.6

Source: Company data, I-Sec research

Table 5: Segment-wise estimates

(Rs mn)	FY20	FY21	FY22	FY23E	FY24E
Revenue					
White cement	19,107	18,825	20,531	22,694	24,822
--India	15,731	16,047	17,409	19,294	21,170
--Fujairah	3,376	2,778	3,122	3,400	3,652
Grey Cement	38,240	46,287	57,882	68,770	78,975
Total	57,347	65,111	78,413	91,463	1,03,797
EBITDA					
White cement	4,638	4,392	4,055	4,169	5,382
--India	4,247	4,082	3,948	3,972	5,163
--Fujairah	391	311	107	196	219
Grey Cement	7,496	11,384	10,769	11,652	15,636
Total	12,134	15,777	14,824	15,821	21,018

Source: Company data, I-Sec research

Table 6: Per-tonne estimate analysis

(Rs/te)	FY20	FY21	FY22	FY23E	FY24E
Net realisation – Grey cement	4,527	4,494	4,774	5,203	5,151
Net realisation – White cement	10,684	11,403	11,148	11,355	11,532
Blended realisation	5,603	5,449	5,614	6,011	5,937
Raw materials consumed	855	896	922	960	968
Power and fuel	1,072	975	1,183	1,575	1,291
Freight	1,077	1,089	1,184	1,213	1,237
Others	1,479	1,247	1,372	1,326	1,333
Total operating expenses	4,483	4,208	4,660	5,075	4,829
Other operating income	65	79	107	103	94
EBITDA/te – Grey cement	887	1,105	888	882	1,020
EBITDA/te – White cement	2,594	2,661	2,202	2,086	2,501
EBITDA/te – blended	1,186	1,320	1,061	1,040	1,202

Source: Company data, I-Sec research

Table 7: Valuations based on 13x FY24E EV/E

(Rs.mn)	
Target EV/ EBITDA multiple (x)	13
Target EV (Rs mn)	2,73,240
Net debt / (cash) (Rs mn)	28,471
Target value (Rs mn)	2,44,769
No. of shares (mn)	77
Target price per share (Rs)	3,170

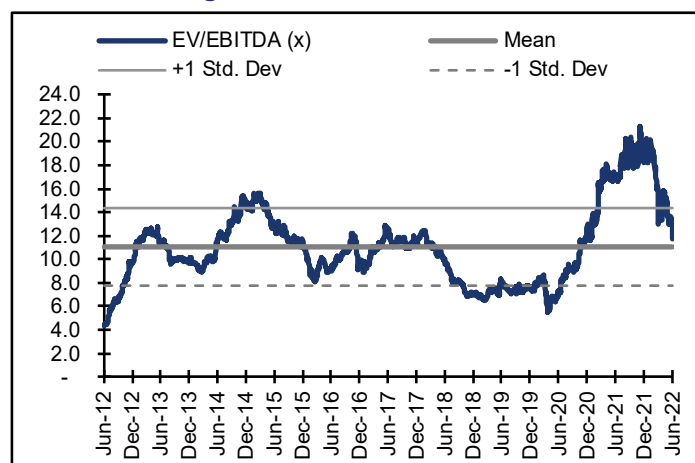
Source: I-Sec research

Chart 4: Panna (integrated unit), MP, project update

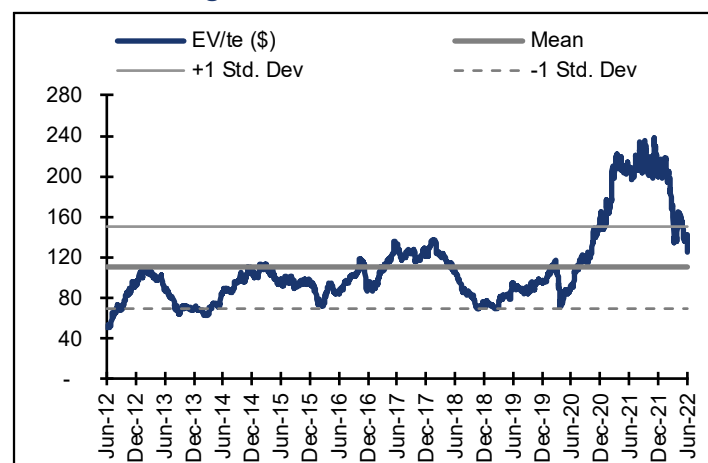
Source: Company data, I-Sec research

Chart 5: Expansion – project status at Hamirpur (grinding unit) in UP

Source: Company data, I-Sec research

Chart 6: Rolling EV/EBITDA

Source: I-Sec research

Chart 7: Rolling EV/te

Source: I-Sec research

Financial summary (consolidated)

Table 8: Profit and loss statement

(Rs mn, year ending March 31)

	FY21	FY22	FY23E	FY24E
Operating Income (Sales)	65,111	78,413	91,463	1,03,797
of which				
Grey cement	46,287	57,882	68,770	78,975
White cement	18,825	20,531	22,694	24,822
Other operating income	950	1,495	1,570	1,649
Operating Expenses	50,284	65,084	77,213	84,427
EBITDA	15,777	14,824	15,821	21,018
% margin	24.2	18.9	17.3	20.2
Depreciation & Amortisation	3,062	3,425	3,749	4,366
Gross Interest	2,528	2,697	2,678	2,598
Other Income	1,130	1,429	1,499	1,574
Recurring PBT	11,317	10,131	10,893	15,628
Add: Extraordinaries	(390)	142	-	-
Less: Taxes	3,896	3,479	3,826	5,146
Net Income (Reported)	7,097	6,871	7,146	10,562
Recurring Net Income	7,487	6,729	7,146	10,562

Source: Company data, I-Sec research

Table 9: Balance sheet

(Rs mn, year ending March 31)

	FY21	FY22	FY23E	FY24E
Assets				
Total Current Assets	32,831	36,115	38,186	41,773
Current Liab. & Prov.	21,755	25,192	31,011	34,181
Net Current Assets	11,075	10,923	7,175	7,592
Investments of which	1,422	2,157	2,157	2,157
Strategic/Group	440	110	110	110
Marketable	983	2,047	2,047	2,047
Net Fixed Assets*	64,467	75,758	86,139	90,903
of which				
Capital Work-in-Progress	5,093	10,321	11,321	12,321
Total Assets	76,965	88,838	95,471	1,00,652
of which cash & cash equivalents	17,079	5,299	3,506	5,078
Liabilities				
Borrowings	33,925	38,549	38,549	33,549
Deferred Tax Liability	5,930	7,383	8,501	10,005
Minority Interest	(257)	(343)	(428)	(535)
Equity Share Capital	773	773	773	773
Face value per share (Rs)	10	10	10	10
Reserves & Surplus	36,595	42,476	48,077	56,861
Net Worth	37,367	43,249	48,849	57,634
Total Liabilities	76,965	88,838	95,471	1,00,652

Source: Company data, I-Sec research

Table 12: Cashflow statement

(Rs mn, year ending March 31)

	FY21	FY22	FY23E	FY24E
Operating Cashflow	12,398	11,338	10,670	15,089
Working Capital changes	1,715	(4,308)	1,799	922
Capital Commitments	(7,590)	(15,275)	(14,000)	(9,000)
Net Operating FCF	6,523	(8,245)	(1,530)	7,012
Investing Activities	(6,582)	4,391	1,499	1,574
Issue of Share Capital	-	-	-	-
Buyback of shares	-	-	-	-
Inc(Dec) in Borrowings	1,177	4,532	-	(5,000)
Dividend paid	(3)	(1,156)	(1,545)	(1,777)
Others	(24)	(83)	(216)	(238)
Extraordinary Items	-	-	-	-
Chg. in Cash & Bank	1,091	(562)	(1,792)	1,572

Source: Company data, I-Sec research

Table 13: Key ratios

(Year ending March 31)

	FY21	FY22	FY23E	FY24E
Per Share Data (Rs)				
EPS(Basic)	91.9	88.9	92.5	136.7
Diluted Recurring EPS	96.9	87.1	92.5	136.7
Diluted Recurring CEPS	136.5	131.4	141.0	193.2
Dividend per share	15.0	15.0	20.0	23.0
Book Value	484	560	632	746
Growth Ratios (% YoY)				
Operating Income	13.5	20.4	16.6	13.5
EBITDA	30.0	(6.0)	6.7	32.9
Recurring Net Income	52.1	(10.1)	6.2	47.8
Diluted Recurring EPS	52.1	(10.1)	6.2	47.8
Diluted Recurring CEPS	35.2	(3.7)	7.3	37.0
Valuation Ratios (x)				
P/E	22.0	24.5	23.1	15.6
P/CEPS	15.6	16.2	15.1	11.1
P/BV	4.4	3.8	3.4	2.9
EV / EBITDA	11.5	13.4	12.6	9.2
EV / te (US\$)	147	158	127	123
EV / Operating Income	2.8	2.5	2.2	1.9
EV / Operating FCF	15.9	(64.8)	16.0	12.1
Operating Ratios (%)				
Raw Material / Sales	16	16	16	16
SG&A expenses / Sales	36	38	36	37
Other Income / PBT	10	14	14	10
Effective Tax Rate	36	34	35	33
NWC / Total Assets	(0.1)	0.1	0.1	0.0
Inventory (x)	3.1	3.0	3.1	3.3
Receivables (days)	18	18	20	21
Payable (days)	40	37	39	42
D/E Ratio (x)	0.6	0.9	0.9	0.7
Profitability Ratios (%)				
Rec. Net Income Margins	11.3	8.4	7.7	10.0
RoCE	12.7	10.3	9.6	12.5
RoNW	22.1	16.7	15.5	19.8
Dividend Payout	15.5	17.2	21.6	16.8

Source: Company data, I-Sec research

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