

Strong Operating Performance; Volume Growth Visibility Intact

Est. Vs. Actual for Q3FY24: Revenue – **BEAT**; EBITDA Margin – **BEAT**; PAT – **BEAT**

Change in Estimates post Q3FY24 (Abs)

FY24E/FY25E– Revenue: -2%/1%; **EBITDA:** 1%/4%; **PAT:** 4%/1%

Recommendation Rationale

- **Higher volume growth visibility:** The recent expansion of 4 mtpa grey cement capacity in the demand-accretive central India region aided the volume growth of the company during the quarter with 75% capacity utilization. Furthermore, the company has also announced a new capacity expansion program of 6 mtpa which will take its total Grey Cement capacity to 30 mtpa from the current 22 mtpa (capacity growth of 13% CAGR over FY23-FY26). This is expected to drive the company's volume growth moving ahead. We expect the company to post volume growth of 13% CAGR over FY23-26E.
- **EBITDA/tonne improvement to continue:** During the quarter, the company reported better-than-expected EBITDA margins, driven by higher volume, better realization, and lower fuel costs. Power&Fuel costs were down 18% on a YoY basis and further savings are expected in Q4FY24. Furthermore, the operating costs of new units are normalizing as utilization improves which will drive EBITDA margins moving ahead. We expect the company to report an EBITDA margin in the range of 18%-20% and EBITDA/tonne of Rs 1,100/Rs1,200/1240 in FY24E/FY25E/FY26E driven by higher volumes, improved realizations, and lower costs.
- **Central India to aid in revenue growth:** Post the completion of the ongoing and new capacity expansion, Central India would constitute around 40% of total Grey Cement capacity. With the heightened government focus on developing the infrastructure of the region, per-capita cement consumption is going to accelerate moving ahead. With its recent expansion and upcoming capacity, we believe the company is well-placed to take benefit of rising cement demand in the region. We expect a revenue CAGR of 15% over FY23-FY26E.

Sector Outlook: Positive

Company Outlook & Guidance: The company expects to sustain double-digit volume growth in FY24 as demand remains robust. It pegs overall industry growth in the range of 7-9%. It expects market dynamics to determine Cement prices.

Current Valuation: 13xFY26 EV/EBITDA (Earlier Valuation: 13x FY25 EV/EBITDA). We roll over our estimate to FY26.

Current TP: Rs 4,400/share; (Earlier TP: Rs 3,830/share)

Recommendation: We maintain our **BUY** recommendation on the stock.

Alternative BUY Ideas from our Sector Coverage

UltraTech Cement (TP – 11,110/share)

Financial Performance

JKCL reported robust operating performance during the quarter owing to higher volume improvement in realization and lower operating costs. Its Volume/Revenue/EBITDA/PAT grew by 14%/21%/156%/626% YoY (above expectations). Interest and depreciation costs were up 45%/19% YoY. The company reported an APAT of Rs 283 Cr, up 626%/59% YoY/QoQ.

The company recorded an EBITDA margin of 21.3% (expectation of 18.6%) against 10% YoY. The quarter's consolidated volume (Grey+White) stood at 4.71 million tonnes per annum (mntpa), up 14% YoY. JKCL's combined EBITDA/tonne stood at Rs 1,329, up 126%/29% YoY/QoQ. It reported blended realization/tonne (Grey+White) of Rs 6,238 against Rs 5,869 YoY, up 6%/3% YoY/QoQ. The company's cost/tonne declined by 7%/3% YoY/QoQ to Rs 4,909 due to lower power/fuel costs, down 18% on a tonne basis.

Outlook: The company's superior positioning in the key markets of North India and recent expansion in the demand-accretive central region will keep its growth momentum unabated. Given the government's keen focus on infrastructure and low-cost affordable housing, robust real estate demand, and capacity ramp-up of new units, we expect JKCL to improve its market share and deliver industry-leading performance going forward. We expect the company to grow its Volume/Revenue/EBITDA/APAT at a CAGR of 13%/15%/31%/44% over FY23-FY26E.

Valuation & Recommendation

The stock is currently trading at 13x and 12x FY25E/FY26E EV/EBITDA. We maintain our **BUY** rating on the stock with a TP of Rs 4,400/share, implying an upside potential of 11% from the CMP, valuing the company at 13xFY26E EV/EBITDA.

Key Financials (Consolidated)

(Rs Cr)	Q3FY24	QoQ (%)	YoY (%)	Axis Est.	Variance
Net Sales	2,935	7	21	2899	1%
EBITDA	625	34	156	538	16%
EBITDA Margin	21.3%	430bps	1130bps	18.6%	270bps
Net Profit	283	59	626	214	33%
EPS (Rs)	37	59	626	28	33%

Source: Company, Axis Research

(CMP as of 23rd Jan 2024)

CMP (Rs)	3,948
Upside /Downside (%)	11
High/Low (Rs)	4299/2540
Market cap (Cr)	30,529
Avg. daily vol. (6m)Shrs.	118685
No. of shares (Cr)	7.7

Shareholding (%)

	June-23	Sep-23	Dec-23
Promoter	45.8	45.8	45.7
FII's	15.5	14.4	15.3
MF's / UTI	21.9	23.0	22.6
Banks / FI's	0.0	0.0	0.0
Others	16.8	16.8	16.4

Financial & Valuations

Y/E Mar (Rs Cr)	FY24E	FY25E	FY26E
Net Sales	11,651	13,445	14,633
EBITDA	2,114	2,616	2,907
Net Profit	861	1,128	1,260
EPS (Rs)	111	146	163
PER (x)	35	27	24
P/BV (x)	5.6	4.7	3.9
EV/EBITDA (x)	16	13	12
ROE (%)	17	19	18

Change in Estimates (%)

Y/E Mar	FY24E	FY25E
Sales	-2%	1%
EBITDA	1%	4%
PAT	4%	1%

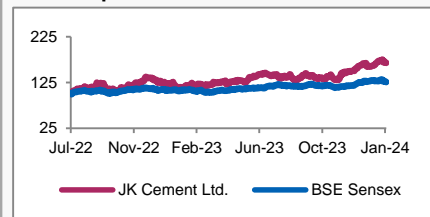
ESG disclosure Score**

Environmental	67
Social Disclosure Score	41
Governance Disclosure	90
Total ESG Disclosure	67
Sector Average	49

Source: Bloomberg, Scale: 0.1-100

**Note: This score measures the amount of ESG data a company reports publicly and does not measure the company's performance on any data point. All scores are based on 2022 disclosures

Relative performance



Source: Ace Equity, Axis Securities

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Key Concall Highlights

- **Capacity Expansion:** The company recently expanded its Grey cement capacity by 2 mtpa in Ujjain, MP in the demand-accretive central India region. In FY23, the company expanded its capacity by 4 mtpa in the Central region which has ramped up well and contributed to volume growth and reduction in fixed cost. For the Prayagraj grinding unit (2 mtpa), orders for main equipment have been issued and equipment deliveries started. It is expected to be commissioned in Q2-Q3FY25.
- **Setting up new 6 mtpa GU (Grinding Unit) and 3.3 mtpa CU (Clinker Unit):** The company has announced a new capacity expansion program of 6 mtpa GU and 3.3 CU unit at a capital cost of Rs 2,850 Cr (@\$57/tonne). It is expected to be commissioned in phases by FY26, taking the total grey cement capacity to 30 mtpa by FY26. The breakup of the upcoming capacity of 3.3 mtpa CU in Panna, MP and 3 mtpa GU in Bihar, 1 mtpa each GU in Panna, Hamirpur and Prayagraj. The company also operates in White Cement and Wall Putty with a capacity of 2.8 mtpa. The company is also de-bottlenecking its clinker capacity in Panna from 8000/tonne a day to 1,0000/tonne a day, which will aid in producing more cement moving ahead and support volume growth.
- **Paint Foray:** The company expects the paint business to contribute Rs 150 Cr in FY24, Rs 300 Cr in FY25 and Rs 500 Cr in FY26 in sales. For 9MFY24, the Paint business reported revenue of Rs 100 Cr. The company aims to be EBITDA-positive in FY26. Currently, it is making a loss in the range of Rs 10 Cr -15 Cr in the Paint business. The company acquired the remaining 40% stake in Acro Paints Ltd. and it has now become a 100% subsidiary of the company. It launched J.K Maxx Paints in decorative paints space in U.P, Rajasthan, Punjab, Haryana, and Chandigarh during the quarter.
- **Volume:** During the quarter, the company registered volume growth of 14% on a consolidated basis on a YoY basis. For the quarter, Grey and White Cement volume growth stood at 14%/13% YoY. The blended cement sale was 66% against 69% QoQ and the balance was OPC. The trade and non-trade mix during the quarter stood at 62%/38% against 69%/31%. Capacity utilization stood at 75% during the quarter.
- **Premium Cement** formed 12% of the overall trade sale, up 2% YoY. The company aims to take the sale of premium cement to 20% over the medium to long term. Grey cement and White Cement contribution stood at 80:20 during the quarter. The total volume contribution between Grey and White Cement stood at 88% and 12% during the quarter on a consolidated basis. The company has a 50% market share in the White Cement business in India.
- **Pricing:** During the quarter, blended realization improved by 6% and 3% on account of higher Grey & White cement realization YoY/QoQ. The cement prices have softened currently and are lower by Rs 100 on a tonne basis QoQ. The company sees market dynamics to determine prices.
- **Power/Fuel:** During the quarter, P/F cost was lower by 1%/18% at Rs 1,383 on a QoQ/YoY basis. The company expects a marginal reduction in power/fuel costs in Q4FY24. The fuel mix was Pet Coke 75% and the balance was imported Coal, renewable energy/AFR. On a per Kcal basis, cost stood at Rs 1.8 against Rs 1.9 in Q2FY24 and the same is expected to reduce marginally moving ahead. WHRS at Panna is operational which shall entail savings of Rs 50 Cr on an annual basis in fuel cost. The company aims to take the total green power capacity to 100 MW by the end of FY25. WHRS (18 MW) plant in Muddapur, Karnataka will be commissioned in Q4FY24.
- **Freight:** Lead distance during the quarter was 427 km against 418 km in Q3FY24. On a tonne basis, freight cost was higher by 5% and 11% YoY/QoQ basis at Rs 1,307 on the back of higher lead distance and pick railway season charge. The company transported 89% of the volume by road and the balance by rail.
- **Subsidy:** The total subsidy to be received in FY24 stands at Rs 300 Cr and the subsidy accrued during Q2FY24 stands at Rs 80 Cr. The company expects a subsidy of Rs 200 on a tonne basis for Central India's operation. The company aims to receive Rs 300 cr as a subsidy for Central India operation for the next few years. This will aid in revenue growth.
- **Capex:** For FY24/FY25/FY26, Capex guidance is Rs 1,200 Cr/ Rs 2200 Cr/ Rs 1800 Cr respectively.
- **Debt/Cash:** The current gross debt stands at Rs 4,585 Cr, cash/cash equivalent at Rs 1,598 Cr, and net debt at Rs 2,986 Cr. Net debt decreased by Rs 50 Cr during the quarter. The company expects to pick debt to be around Rs 5,500 Cr.

Key Risks to our Estimates and TP

- Lower realization and demand in its key market and delay in capacity expansion.
- Higher input costs may impact margins.

Change in Estimates

	New		Old		% Change	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Sales	11,651	13,445	11905	13369	-2%	1%
EBITDA	2,114	2,616	2088	2507	1%	4%
PAT	861	1,128	828	1112	4%	1%

Source: Company, Axis Securities

Result Review Q3FY24

(Rs Cr)	Quarterly Performance				
	3QFY24	2QFY24	3QFY23	% Chg QoQ	% Chg YoY
Net sales	2935	2753	2433	7%	21%
Expenditure	2310	2286	2189	1%	6%
EBITDA	625	467	244	34%	156%
Other income	38	29	22	31%	72%
Interest	114	115	79	-1%	45%
Depreciation	140	137	118	2%	19%
PBT	409	244	69	67%	490%
Tax	126	66	32	91%	293%
Adjusted PAT	283	178	39	59%	626%
EBITDA margin (%)	21.3%	17.0%	10.0%	430bps	1130bps
EPS (Rs)	36.8	23.1	5.1	59%	626%

Source: Company, Axis Securities

Volume/ Realization / Cost Analyses

(Rs Cr)	Quarterly Performance				
	3QFY24	2QFY24	3QFY23	% Chg QoQ	% Chg YoY
Volume/mnt	4.71	4.54	4.14	4%	14%
Realisation/tonne (Rs)	6238	6067	5869	3%	6%
Cost/tonne (Rs)	4909	5038	5281	-3%	-7%
Raw material/tonne (Rs)	818	1010	995	-19%	-18%
Staff Cost/tonne (Rs)	423	403	386	5%	9%
Power & Fuel/tonne (Rs)	1383	1396	1679	-1%	-18%
Freight/tonne (Rs)	1307	1182	1250	11%	5%
Other Expenses /tonne (Rs)	979	1047	971	-7%	1%
EBITDA/tonne (Rs)	1329	1029	588	29%	126%

Source: Company, Axis Securities

Financials (consolidated)

Profit & Loss

(Rs Cr)

Y/E March	FY23	FY24E	FY25E	FY26E
Net sales	9708	11651	13445	14633
Other operating income	0	0	0	0
Total income	9708	11651	13445	14633
Raw Material	1593	1818	2072	2238
Power & Fuel	2563	2684	3046	3275
Freight & Forwarding	2033	2418	2756	2977
Employee benefit expenses	638	754	829	921
Other Expenses	1579	1863	2124	2316
EBITDA	1302	2114	2616	2907
Other income	100	138	161	146
	0	0	0	0
PBIDT	1402	2252	2777	3053
Depreciation	458	551	627	722
Interest & Fin Chg.	312	452	467	451
E/o income / (Expense)	0	0	0	0
Pre-tax profit	631	1248	1683	1881
Tax provision	212	386	556	621
Minority Interests	7	-1	0	0
Associates	0	0	0	0
RPAT	426	861	1128	1260
Other Comprehensive Income	0	0	0	0
APAT after Comprehensive Income	426	861	1128	1260

Source: Company, Axis Securities

Balance Sheet

(Rs Cr)

Y/E March	FY23	FY24E	FY25E	FY26E
Total assets	13285	14397	15905	17201
Net Block	8348	9020	10544	11608
CWIP	592	592	592	592
Investments	92	92	92	192
Wkg. cap. (excl cash)	640	755	868	943
Cash / Bank balance	833	1061	805	781
Misc. Assets	2779	2876	3003	3085
Capital employed	13285	14397	15905	17201
Equity capital	77	77	77	77
Reserves	4609	5425	6507	7721
Minority Interests	-44	-45	-45	-45
Borrowings	4995	5195	5495	5495
DefTax Liabilities	809	809	809	809
Other Liabilities and Provision	2838	2935	3062	3144

Source: Company, Axis Securities

Cash Flow

(Rs Cr)

Y/E March	FY23	FY24E	FY25E	FY26E
Profit before tax	631	1248	1683	1881
Depreciation	458	551	627	722
Interest Expenses	302	452	467	451
Non-operating/ EO item	-45	-138	-161	-146
Change in W/C	226	-115	-113	-75
Income Tax	162	386	556	621
Operating Cash Flow	1411	1613	1947	2212
Capital Expenditure	-1611	-1223	-2151	-1785
Investments	-977	0	0	-100
Others	65	138	161	146
Investing Cash Flow	-2523	-1086	-1990	-1739
Borrowings	1140	200	300	0
Interest Expenses	-283	-452	-467	-451
Dividend paid	-116	-46	-46	-46
Others	0	0	0	0
Financing Cash Flow	741	-299	-213	-497
Change in Cash	104	228	-256	-24
Opening Cash	103	257	485	229
Closing Cash	257	485	229	205

Source: Company, Axis Securities

Ratio Analysis

(%)

Y/E March	FY23	FY24E	FY25E	FY26E
Operational Ratios				
Gross profit margin	36%	41%	41%	42%
EBITDA margin	13%	18%	19%	20%
PAT margin	4%	7%	8%	9%
Depreciation / G. block	4.2%	4.6%	4.4%	4.5%
Growth Indicator				
Sales growth	21%	20%	15%	9%
Volume growth	16%	18%	14%	8%
EBITDA growth	-12%	62%	24%	11%
PAT growth	-38%	106%	31%	12%
Efficiency Ratios				
Sales/Gross block (x)	0.89	0.96	0.94	0.91
Sales/Net block(x)	1.2	1.3	1.3	1.3
Working capital/Sales (%)	6%	6%	6%	6%
Valuation Ratios				
PE (x)	61	35	27	24
P/BV (x)	5.6	5.6	4.7	3.9
EV/Ebitda (x)	23	16	13	12
EV/Sales (x)	3.0	2.9	2.6	2.3
MCap/ Sales (x)	2.7	2.6	2.3	2.1
EV/Tonne \$	151	163	154	153
Return Ratios				
ROE	10	17	19	18
ROCE	10	16	18	17
ROIC	12	19	21	20
Leverage Ratios				
Debt / equity (x)	1.1	1.0	0.8	0.7
Net debt/ Equity (x)	0.7	0.6	0.6	0.5
Net debt/Ebitda	2.6	1.6	1.5	1.3
Interest Coverage ratio (x)	3.0	3.8	4.6	5.2
Cash Flow Ratios				
OCF/Sales	14%	14%	14%	15%
OCF/Ebitda	106%	76%	74%	76%
OCF/Capital Employed	14%	15%	16%	17%
FCF/Sales	-2%	3%	-2%	3%
Payout ratio (Div/NP) (%)	13	5	4	4
AEPS (Rs)	55	111	146	163
AEPS Growth (%)	-38	102	31	12
CEPS (Rs)	114	183	227	256
DPS (Rs)	7	6	6	6

Source: Company, Axis Securities

JK Cement Price Chart and Recommendation History



Date	Reco	TP	Research
09-Feb-22	BUY	3,740	Result Update
14-Mar-22	BUY	3,100	Company Update
24-May-22	BUY	2,800	Result Update
17-Aug-22	BUY	3,020	Result Update
23-Aug-22	BUY	3,020	AAA
14-Nov-22	BUY	3,350	Result Update
26-Dec-22	BUY	3,350	Event Update
08-Feb-23	BUY	3,000	Result Update
31-May-23	BUY	3,560	Result Update
17-Aug-23	BUY	3,560	Result Update
28-Aug-23	BUY	3,569	AAA
08-Nov-23	BUY	3,830	Result Update
24-Jan-24	BUY	4,400	Result Update

Source: Axis Securities

About the analyst



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