

India

**ADD** (no change)

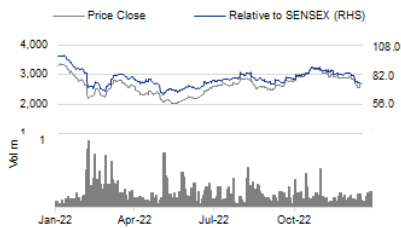
Consensus ratings\*: Buy 19 Hold 4 Sell 5

Current price:	Rs2,753
Target price:	Rs3,082
Previous target:	Rs3,238
Up/downside:	12.0%
InCred Research / Consensus:	0.0%
Reuters:	JKCE.BO
Bloomberg:	JKCE IN
Market cap:	US\$2,928m Rs212,646m
Average daily turnover:	US\$5.3m Rs383.1m
Current shares o/s:	77.3m
Free float:	42.2%

\*Source: Bloomberg

**Key changes in this note**

- Net sales increased by 1-2% for FY24F-25F.
- EBITDA cut by 5%-7% for FY24F-25F.
- Rollover target price to Mar 2024F.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	(4.2)	(1.8)	(16.7)
Relative (%)	(5.4)	(0.9)	(20.7)

Major shareholders	% held
Promoter & Promoter Group	45.8
Fidelity Investment Trust Fidelity Series	6.0
Mirae Asset Emerging Fund	4.9

**Analyst(s)**



**Nishant BAGRECHA**  
 T (91) 22 4161 1564  
 E nishant.bagrecha@incredcapital.com

# J K Cement Ltd

## 3Q misses expectations on higher costs

- 3QFY23 consolidated EBITDA stood at ~Rs2.4bn, down 33% yoy and 20% qoq, and 27% below our estimate due to higher-than-expected costs.
- We cut FY24F-25F EBITDA by 7% to factor in the rise in costs and price weakness. JKCE aims to raise its grinding capacity to 25mtpa by 1HFY25F.
- We retain ADD rating on the stock with a lower target price of Rs3,082.

### Steady volume/realization; new expansion provides growth visibility

JK Cement or JKCE's 3QFY23 grey cement volume rose by ~22.8% yoy/10.1% qoq to 3.55mt on a better utilization rate of 93% vs. 77% yoy. White cement and putty volume declined by 11.4% yoy and 9.3% qoq to 0.38mt. Grey segment realization improved by 1.4% qoq (up 1.3% yoy) as there was no major price hike in the northern region in 3Q and 4Q so far is stable. South India market is feeling further pressure on the pricing front in 4Q. White cement realization grew ~10.7% yoy (up 2.5% qoq), leading to blended realization beat. JKCE stated that the wall putty business is under pressure due to higher competitive intensity, while margins in the white cement business are at par with grey cement now. It added that paint companies are giving higher incentives to dealers which needs to be matched to maintain the sales volume. The recently commissioned Panna unit is likely to clock ~50% capacity utilization in 4QFY23F (higher by exit). JKCE is on track for grey cement capacity upgrade, and it may commission 2mtpa expansion project by Mar 2023F.

### Start-up cost of a new plant in Central India affects overall cost in 3Q

Blended cost/t rose by ~11% yoy/6% qoq to Rs5,568 during 3Q. Power and fuel cost/t was up 12% qoq, with fuel consumption cost rising from Rs2.4/Kcal to Rs2.6/Kcal, and JKCE expects a decline of Rs0.2 on a Kcal basis in 4QFY23F. Blended EBITDA/t fell 26% qoq and 44% yoy to Rs620. In standalone operations, JKCE incurred Rs200m on Central India operations and over the next 2-3 quarters, Rs200-250m additional expenses are likely.

### Leverage to peak post FY23F after factoring in the announced capex

Capex guidance maintained at Rs19bn (including paints) for FY23F; of this, the company has already incurred Rs16bn with the remaining to be incurred in 4QFY23F. For FY24F, management reiterated its capex guidance of Rs14bn. Capex for paints is expected at Rs2.8bn in FY23F, which would further reduce in FY24F. Consolidated net debt stood at Rs28.71bn as at end-Dec 2022. In Dec 2022, JKCE acquired Akro Paints (60% stake for Rs1.53bn), marking its foray into the paints business.

### Maintain ADD rating on likely sales volume outperformance

JKCE trades at FY24F/FY25F EV/EBITDA of 13x/11.3x, respectively. We like JKCE's presence and new expansion in the regions having favourable pricing. Retain ADD rating on it with an EV/EBITDA-based target price of Rs3,082 (Rs3,238 earlier), set at 12.5x Mar 2024F. **Downside risks:** Weak demand, pricing pressure, delay in commissioning of capacity, further rise in input cost, and any rise in competition in the white cement segment.

Financial Summary	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Revenue (Rsm)	66,061	79,908	95,995	110,582	119,954
Operating EBITDA (Rsm)	15,387	14,824	12,901	18,553	21,094
Net Profit (Rsm)	7,097	6,871	4,494	7,811	9,541
Core EPS (Rs)	91.9	88.9	58.2	101.1	123.5
Core EPS Growth	44.1%	(3.2%)	(34.6%)	73.8%	22.2%
FD Core P/E (x)	29.97	30.95	47.32	27.23	22.29
DPS (Rs)	15.0	15.0	9.9	17.2	21.0
Dividend Yield	0.54%	0.54%	0.43%	0.76%	0.92%
EV/EBITDA (x)	15.16	16.57	19.47	13.31	11.31
P/FCFE (x)	54.09	466.99	(25.03)	69.86	11.82
Net Gearing	56.0%	77.5%	83.6%	65.7%	43.7%
P/BV (x)	5.69	4.92	4.54	4.01	3.51
ROE	21.0%	17.0%	10.0%	15.6%	16.8%
% Change In Core EPS Estimates			(0.50%)	(0.39%)	(0.35%)
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

## 3Q misses expectations on higher costs

Figure 1: Consolidated quarterly performance

Particulars (Rs m)	3QFY23	3QFY23F	2QFY23	3QFY22	% Change		
					3QFY23F	2QFY23	3QFY22
<b>Net Sales</b>	<b>24,325</b>	<b>23,451</b>	<b>22,280</b>	<b>20,305</b>	<b>4%</b>	<b>9%</b>	<b>20%</b>
Raw Materials Consumed	4,123	4,002	3,678	2,972	3%	12%	39%
Freight and Forwarding Expenses	5,179	4,937	4,627	4,106	5%	12%	26%
Power and Fuel Cost	6,960	5,915	5,762	4,569	18%	21%	52%
Employee Cost	1,601	1,577	1,528	1,422	1%	5%	13%
Other Expenses	4,025	3,698	3,633	3,580	9%	11%	12%
<b>Total Expenditure</b>	<b>21,887</b>	<b>20,130</b>	<b>19,228</b>	<b>16,650</b>	<b>9%</b>	<b>14%</b>	<b>31%</b>
<b>EBITDA</b>	<b>2,438</b>	<b>3,322</b>	<b>3,052</b>	<b>3,655</b>	<b>-27%</b>	<b>-20%</b>	<b>-33%</b>
Depreciation	1,181	1,096	1,061	871	8%	11%	36%
<b>EBIT</b>	<b>1,257</b>	<b>2,226</b>	<b>1,991</b>	<b>2,784</b>	<b>-44%</b>	<b>-37%</b>	<b>-55%</b>
Interest	787	683	670	706	15%	17%	11%
Other Income	223	264	217	258	-16%	3%	-14%
<b>PBT</b>	<b>693</b>	<b>1,807</b>	<b>1,538</b>	<b>2,336</b>	<b>-62%</b>	<b>-55%</b>	<b>-70%</b>
Tax	320	542	425	934	-41%	-25%	-66%
<b>PAT before MI &amp; Associates</b>	<b>373</b>	<b>1,265</b>	<b>1,113</b>	<b>1,402</b>	<b>-71%</b>	<b>-67%</b>	<b>-73%</b>
Minority Interest	18	20	13	25	-7%	37%	-27%
Profit from Assoc.	-1	0	-2	0			
<b>Recurring PAT</b>	<b>390</b>	<b>1,285</b>	<b>1,124</b>	<b>1,427</b>	<b>-70%</b>	<b>-65%</b>	<b>-73%</b>
Extraordinary Items	0	0	0	0			
<b>Reported PAT</b>	<b>390</b>	<b>1,285</b>	<b>1,124</b>	<b>1,427</b>	<b>-70%</b>	<b>-65%</b>	<b>-73%</b>
EPS (Rs)	4.8	16.6	14.4	18.1	-71%	-67%	-73%
Gross Margin	33%	37%	37%	43%	-351 bp	-371 bp	-949 bp
EBITDA Margin	10.0%	14.2%	13.7%	18.0%	-414 bp	-368 bp	-798 bp
EBIT Margin	5%	9%	9%	14%	-432 bp	-377 bp	-854 bp
PBT Margin	3%	8%	7%	12%	-486 bp	-405 bp	-865 bp
PAT Margin	2%	5%	5%	7%	-387 bp	-344 bp	-542 bp
Tax Rate	46%	30%	28%	40%	1623 bp	1,859 bp	625 bp
Cost items as % of Sales							
RM Cost	17%	17%	17%	15%	-12 bp	44 bp	231 bp
Freight Cost	21%	21%	21%	20%	24 bp	52 bp	107 bp
P&F Cost	29%	25%	26%	23%	339 bp	275 bp	611 bp

SOURCE: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

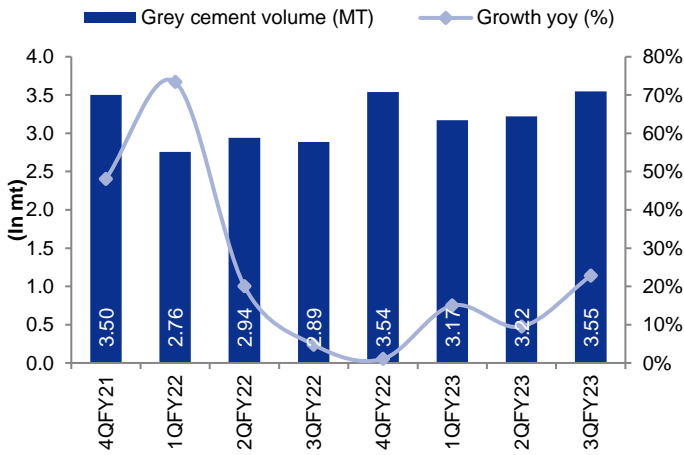
Figure 2: 3QFY23 results on per tonne analysis

Per tonne analysis	3QFY23	3QFY23F	2QFY23	3QFY22	% Change		
					3QFY23F	2QFY23	3QFY22
Sales volume (grey+white)	3.93	3.91	3.64	3.32	0%	8%	18.3%
Blended realization/t	6,189	5,992	6,115	6,113	3.3%	1.2%	1.2%
EBITDA/t	620	849	838	1,100	-27%	-26%	-44%
RM cost/t	1,049	1,023	1,010	895	3%	4%	17%
P&F cost/t	1,771	1,512	1,581	1,376	17%	12%	29%
Freight cost/t	1,318	1,262	1,270	1,236	4%	4%	7%
Employee cost/t	407	403	419	428	1%	-3%	-5%
Other expenses/t	1,024	945	997	1,078	8%	3%	-5%
Total cost/t	5,568	5,144	5,277	5,012	8%	6%	11%

SOURCE: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

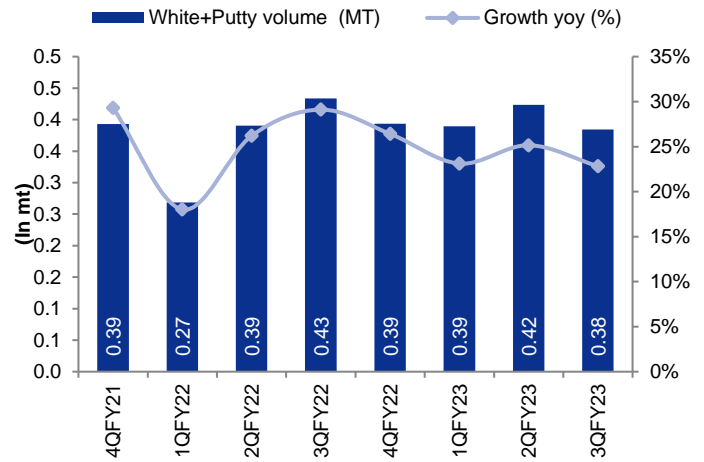
Key charts >

Figure 3: Grey cement sales volume up by ~22.8% yoy and 10.1% qoq on expanded capacity



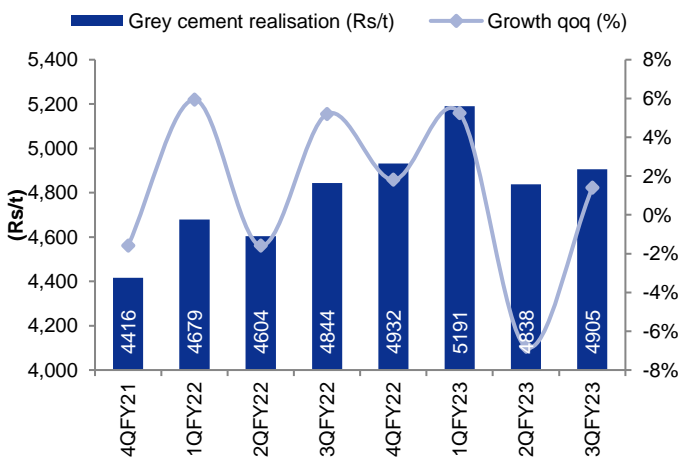
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: White cement (including putty) volume declines 11.4% yoy and 9.3% qoq



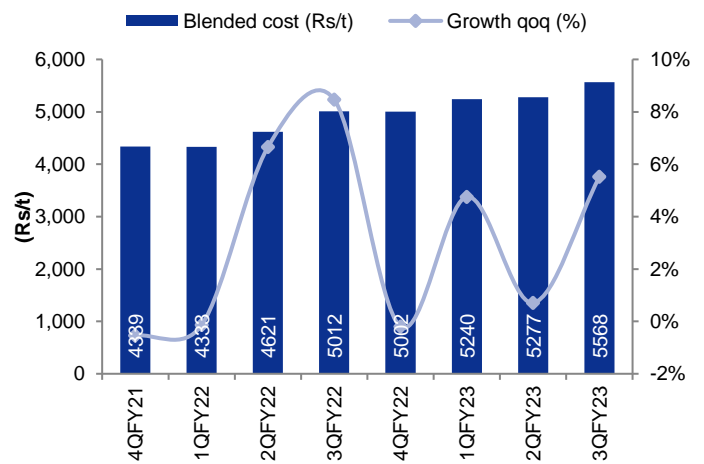
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 5: Grey cement realization up 1.3% yoy and 1.4% qoq



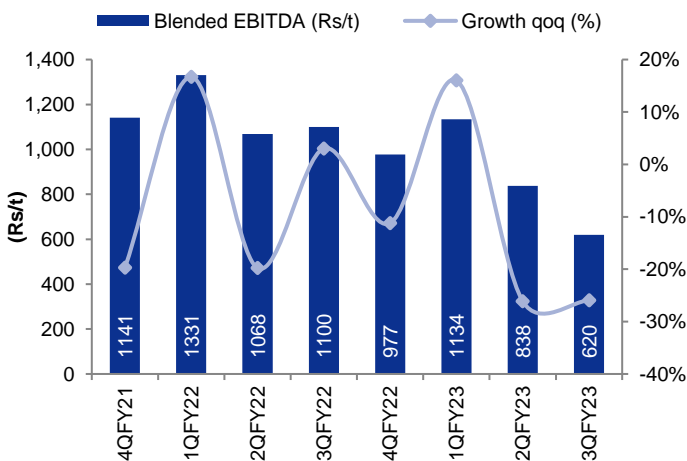
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 6: Blended cost/t increases by 6% qoq and 11% yoy

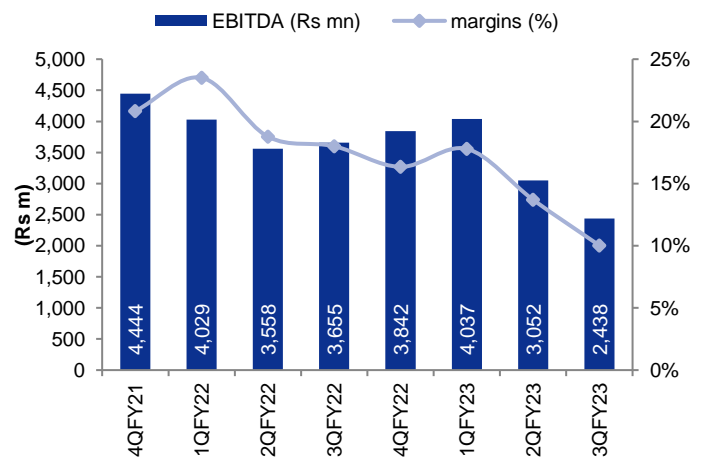


SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 7: Blended EBITDA/t down 44% yoy and 26% qoq to Rs620 Figure 8: Consolidated EBITDA stood at Rs2.4bn, down 20% qoq



SOURCE: INCRED RESEARCH, COMPANY REPORTS



SOURCE: INCRED RESEARCH, COMPANY REPORTS

**Figure 9: Our revised earnings estimates**

Rs. m	New			Old			Change (%)		
	FY23F	FY24F	FY25F	FY23F	FY24F	FY25F	FY23F	FY24F	FY25F
Sales	95,995	1,10,582	1,19,954	92,421	108,647	118,394	4%	2%	1%
EBITDA	12,901	18,553	21,094	14,344	19,904	22,246	-11%	-7%	-5%
PAT	4,494	7,811	9,541	5,682	8,998	10,517	-26%	-15%	-10%
EPS (Rs.)	58.2	101.1	123.5	74	116	136	-26%	-15%	-10%

SOURCE: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

**Figure 10: Change in our estimates vs. Bloomberg consensus estimates**

Rs. m	Incred			Consensus			Change (%)		
	FY23F	FY24F	FY25F	FY23F	FY24F	FY25F	FY23F	FY24F	FY25F
Sales	95,995	1,10,582	1,19,954	93,652	1,07,653	1,20,766	3%	3%	-1%
EBITDA	12,901	18,553	21,094	14,685	19,553	23,178	-12%	-5%	-9%
PAT	4,494	7,811	9,541	5,709	8,302	10,878	-21%	-6%	-12%

SOURCE: INCRED RESEARCH ESTIMATES, COMPANY REPORTS, BLOOMBERG

**Figure 11: Key assumptions**

	FY21A	FY22A	FY23F	FY24F	FY25F
<b>Volume (mtpa) (Grey + White)</b>	12	14	15	18	19
Yoy	19%	17%	10%	18%	9%
<b>Blended realization (per tonne)</b>	5,675	5,869	6,193	6,148	6,169
Yoy	-4%	3%	6%	-1%	0%
<b>Blended cost (per tonne)</b>	4,353	4,780	5,232	5,021	5,010
Yoy	-7%	10%	9%	-4%	0%
<b>Blended EBITDA (per tonne)</b>	1,322	1,089	961	1,126	1,159
Yoy	6%	-18%	-12%	17%	3%
<b>EBITDA (Rs m)</b>	15,387	14,824	14,344	19,904	22,246
Yoy	27%	-4%	-3%	39%	12%

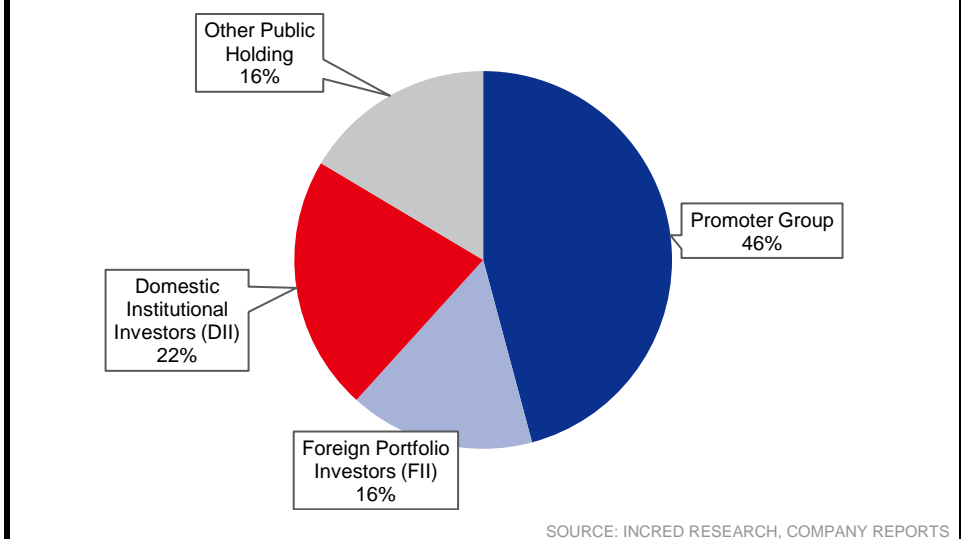
SOURCE: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

**Figure 12: Our target price of Rs3,238 is based on 13x Sep 2024F EV/EBITDA**

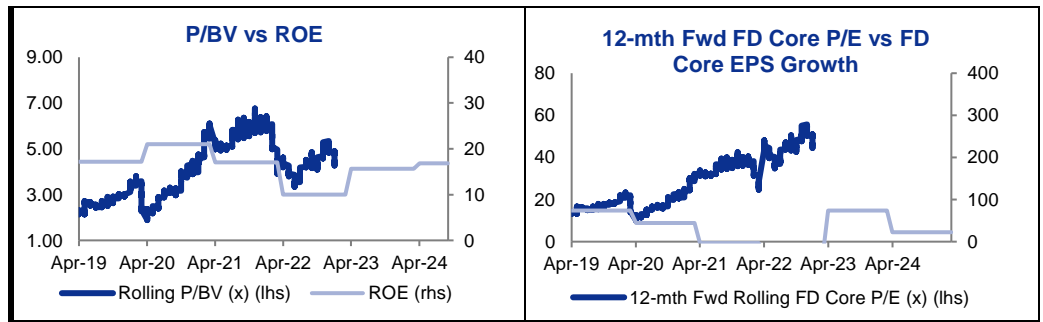
<b>Valuation</b>		<b>TP</b>
Target EV/EBITDA (x)		13.0
Target EV (Rs m)		2,89,198
Net debt / (cash) (Rs m)		23,017
No. of shares (m)		77
<b>Fair value per share (Rs)</b>		<b>3,238</b>

SOURCE: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

**Figure 13: JKCE's shareholding pattern (as at end-Dec 2022)**



BY THE NUMBERS



Profit & Loss

(Rs mn)	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
<b>Total Net Revenues</b>	<b>66,061</b>	<b>79,908</b>	<b>95,995</b>	<b>110,582</b>	<b>119,954</b>
<b>Gross Profit</b>	<b>66,061</b>	<b>79,908</b>	<b>95,995</b>	<b>110,582</b>	<b>119,954</b>
<b>Operating EBITDA</b>	<b>15,387</b>	<b>14,824</b>	<b>12,901</b>	<b>18,553</b>	<b>21,094</b>
Depreciation And Amortisation	(3,062)	(3,425)	(4,442)	(4,953)	(5,151)
<b>Operating EBIT</b>	<b>12,325</b>	<b>11,399</b>	<b>8,460</b>	<b>13,601</b>	<b>15,944</b>
Financial Income/(Expense)	(2,528)	(2,697)	(2,886)	(3,521)	(3,468)
Pretax Income/(Loss) from Assoc.		(2)			
Non-Operating Income/(Expense)	1,130	1,429	900	1,125	1,238
<b>Profit Before Tax (pre-EI)</b>	<b>10,927</b>	<b>10,129</b>	<b>6,474</b>	<b>11,205</b>	<b>13,713</b>
Exceptional Items					
<b>Pre-tax Profit</b>	<b>10,927</b>	<b>10,129</b>	<b>6,474</b>	<b>11,205</b>	<b>13,713</b>
Taxation	(3,896)	(3,337)	(2,059)	(3,474)	(4,251)
Exceptional Income - post-tax					
<b>Profit After Tax</b>	<b>7,031</b>	<b>6,792</b>	<b>4,415</b>	<b>7,732</b>	<b>9,462</b>
Minority Interests	66	79	79	79	79
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
<b>Net Profit</b>	<b>7,097</b>	<b>6,871</b>	<b>4,494</b>	<b>7,811</b>	<b>9,541</b>
Recurring Net Profit	7,097	6,871	4,494	7,811	9,541
<b>Fully Diluted Recurring Net Profit</b>	<b>7,097</b>	<b>6,871</b>	<b>4,494</b>	<b>7,811</b>	<b>9,541</b>

Cash Flow

(Rs mn)	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
<b>EBITDA</b>	<b>15,387</b>	<b>14,824</b>	<b>12,901</b>	<b>18,553</b>	<b>21,094</b>
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(434)	8,813	966	1,280	947
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense	1,130	1,429	900	1,125	1,238
Other Operating Cashflow	422	(15,720)	(5,720)	3,280	12,280
Net Interest (Paid)/Received	(2,528)	(2,697)	(2,886)	(3,521)	(3,468)
Tax Paid	1,959	2,137	(2,059)	(3,474)	(4,251)
<b>Cashflow From Operations</b>	<b>15,935</b>	<b>8,787</b>	<b>4,103</b>	<b>17,245</b>	<b>27,840</b>
Capex	(7,590)	(15,275)	(19,000)	(14,000)	(7,000)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments					
Other Investing Cashflow	(5,847)	5,312	3,400	3,800	(850)
<b>Cash Flow From Investing</b>	<b>(13,437)</b>	<b>(9,964)</b>	<b>(15,600)</b>	<b>(10,200)</b>	<b>(7,850)</b>
Debt Raised/(repaid)	1,434	1,632	3,000	(4,000)	(2,000)
Proceeds From Issue Of Shares					
Shares Repurchased					
Dividends Paid	(1,159)	(1,159)	(924)	(1,607)	(1,963)
Preferred Dividends					
Other Financing Cashflow	(1,649)	144	6,799	(1,201)	(9,701)
<b>Cash Flow From Financing</b>	<b>(1,375)</b>	<b>617</b>	<b>8,874</b>	<b>(6,808)</b>	<b>(13,664)</b>
Total Cash Generated	1,124	(560)	(2,623)	237	6,326
<b>Free Cashflow To Equity</b>	<b>3,932</b>	<b>455</b>	<b>(8,497)</b>	<b>3,045</b>	<b>17,990</b>
<b>Free Cashflow To Firm</b>	<b>5,026</b>	<b>1,520</b>	<b>(8,611)</b>	<b>10,565</b>	<b>23,458</b>

SOURCE: INCRED RESEARCH, COMPANY REPORTS

**BY THE NUMBERS...cont'd**

<b>Balance Sheet</b>					
<b>(Rs mn)</b>	<b>Mar-21A</b>	<b>Mar-22A</b>	<b>Mar-23F</b>	<b>Mar-24F</b>	<b>Mar-25F</b>
Total Cash And Equivalents	13,229	5,299	2,676	2,912	9,239
Total Debtors	3,615	4,268	4,997	5,453	5,916
Inventories	7,566	12,087	11,572	12,119	13,146
Total Other Current Assets	7,421	13,593	15,263	15,924	15,954
<b>Total Current Assets</b>	<b>31,831</b>	<b>35,247</b>	<b>34,508</b>	<b>36,408</b>	<b>44,254</b>
Fixed Assets	55,550	65,437	79,995	89,043	90,892
Total Investments	440	110	210	410	760
Intangible Assets	5,093	10,321	6,821	2,821	3,321
Total Other Non-Current Assets	5,806	2,916	2,916	2,916	2,916
<b>Total Non-current Assets</b>	<b>66,889</b>	<b>78,783</b>	<b>89,941</b>	<b>95,189</b>	<b>97,888</b>
Short-term Debt	4,086	8,683	9,683	9,683	9,683
Current Portion of Long-Term Debt					
Total Creditors	5,998	7,151	8,008	8,775	9,967
Other Current Liabilities	9,490	10,870	12,863	15,039	16,314
<b>Total Current Liabilities</b>	<b>19,574</b>	<b>26,704</b>	<b>30,554</b>	<b>33,497</b>	<b>35,964</b>
Total Long-term Debt	29,931	29,866	31,866	27,866	25,866
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	12,105	14,553	15,553	17,553	20,053
<b>Total Non-current Liabilities</b>	<b>42,036</b>	<b>44,419</b>	<b>47,419</b>	<b>45,419</b>	<b>45,919</b>
Total Provisions					
<b>Total Liabilities</b>	<b>61,610</b>	<b>71,123</b>	<b>77,973</b>	<b>78,917</b>	<b>81,883</b>
Shareholders Equity	37,367	43,249	46,819	53,023	60,602
Minority Interests	(257)	(343)	(343)	(343)	(343)
<b>Total Equity</b>	<b>37,110</b>	<b>42,906</b>	<b>46,476</b>	<b>52,680</b>	<b>60,259</b>

<b>Key Ratios</b>					
	<b>Mar-21A</b>	<b>Mar-22A</b>	<b>Mar-23F</b>	<b>Mar-24F</b>	<b>Mar-25F</b>
Revenue Growth	13.9%	21.0%	20.1%	15.2%	8.5%
Operating EBITDA Growth	26.8%	(3.7%)	(13.0%)	43.8%	13.7%
Operating EBITDA Margin	23.3%	18.6%	13.4%	16.8%	17.6%
Net Cash Per Share (Rs)	(269.03)	(430.32)	(503.09)	(448.26)	(340.50)
BVPS (Rs)	483.61	559.72	605.92	686.22	784.30
Gross Interest Cover	4.88	4.23	2.93	3.86	4.60
Effective Tax Rate	35.7%	32.9%	31.8%	31.0%	31.0%
Net Dividend Payout Ratio	16.3%	16.9%	20.6%	20.6%	20.6%
Accounts Receivables Days	17.38	18.00	17.61	17.25	17.30
Inventory Days	39.97	44.88	44.98	39.10	38.44
Accounts Payables Days	39.31	36.87	33.29	33.28	34.60
ROIC (%)	17.7%	12.6%	8.4%	13.0%	15.1%
ROCE (%)	18.4%	14.9%	10.0%	15.3%	17.1%
Return On Average Assets	10.4%	8.9%	6.1%	8.8%	9.4%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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