JK Cement

Accumulate

Result Update

DART — DOLAT ANALYSIS & RESEARCH THEMES — IN-DEPTH• PRECISE• ACTIONABLE

View: Strong quarter, Fair Valuation; Maintain Accumulate

- JKCE's reported EBITDA, PAT, EBITDA/tn and Realization above estimates however Revenue and Volume in line.
- JKCE posted strong set of numbers with 69.3%/ 85.6%/ 168.1% YoY growth in revenue/ EBITDA/ APAT to Rs16.3 bn/ Rs4.0 bn/ Rs2.1 bn in Q1FY22 led by 71.0% YoY growth in blended volume which was partially offset by fall in blended realization by -1.0% YoY (+2.6% QoQ).
- We expect 15.1%/ 17.1%/ 18.5% revenue/ EBITDA/ APAT CAGR over FY21-23E led by 14.8%/ 12.7% blended volume growth and 1.5%/ 0.9% blended cement realization growth in FY22E/ FY23E.
- We broadly maintain our FY22E/ FY23E revenue estimates however, we increase our EBITDA and APAT estimates by 5.8%/6.7% and 7.9%/7.2% for FY22E/ FY23E factoring Q1FY22 results. We like JKCE because of its sizable presence in higher EBITDA margin contributing white cement & putty business and healthy cash generation & RoE. Moreover, its recently commissioned 4.2mtpa and upcoming 4mtpa strategical expansion into strong pricing markets of north/central will benefit it. The stock has run up ~13.5% since our Q4FY21 result update note on 14 June'21, limiting further upside. Thus, we maintain Accumulate with revised TP of Rs3,357 (13x FY23E EV/EBITDA + 0.5x FY23E CWIP + 1x PB investment in Fujairah, UAE).

Blended EBITDA/tn - up 8.5%/ 17.3% YoY/ QoQ

In line blended volume (+71.0% YoY/ -22.4% QoQ to 3.0mt), higher blended realization (-1.0% YoY/ +2.6% QoQ to Rs5,407/tn) and lower than expected operating cost (-3.8% YoY/ +1.4% QoQ to Rs4,085/tn) led to growth in blended EBITDA/tn to Rs1,323 (+8.5% YoY/ +17.3% QoQ). Grey cement volume stood at 2.8mt (+73.4%/ -21.2% YoY/ QoQ) and white cement & putty volume stood at 0.3mt (+49.9%/ -33.0% YoY/ QoQ) during Q1FY22. Grey cement realization was +0.7/ +5.9% YoY/ QoQ to Rs4,679/tn and white cement & putty realization was -1.2%/ -3.7% YoY/ QoQ to Rs11,811/tn.

Q1FY22 Result (Rs Mn)

Particulars	Q1FY22	Q1FY21	YoY (%)	Q4FY21	QoQ (%)
Revenue	16,337	9,650	69.3	20,525	(20.4)
Total Expense	12,341	7,497	64.6	16,134	(23.5)
EBITDA	3,996	2,153	85.6	4,391	(9.0)
Depreciation	657	580	13.3	649	1.3
EBIT	3,339	1,573	112.3	3,742	(10.8)
Other Income	273	203	34.2	340	(19.9)
Interest	560	572	(2.1)	529	5.8
EBT	3,052	1,204	153.4	5,222	(41.6)
Tax	969	427	126.7	1,251	(22.5)
RPAT	2,083	777	168.1	3,971	(47.6)
APAT	2,083	777	168.1	5,639	(63.1)
			(bps)		(bps)
Gross Margin (%)	46.5	45.7	81	45.6	95
EBITDA Margin (%)	24.5	22.3	215	21.4	307
NPM (%)	12.7	8.1	470	19.3	(660)
Tax Rate (%)	31.8	35.5	(374)	24.0	780
EBIT Margin (%)	20.4	16.3	414	18.2	221

CMP	Rs 3,192
Target / Upside	Rs 3,357 / 5%
NIFTY	16,615

Scrip Details

Equity / FV	Rs 773mn / Rs 10
Market Cap	Rs 247bn
	USD 3.3bn
52-week High/Low	Rs 3,700/ 1,414
Avg. Volume (no)	77,095
Bloom Code	JKCE IN

Price Performance	1M	3M	12M
Absolute (%)	1	16	113
Rel to NIFTY (%)	(4)	3	66

Shareholding Pattern

	Dec'20	Mar'21	Jun'21
Promoters	57.7	57.7	57.6
MF/Banks/FIs	21.7	20.6	20.6
FIIs	15.4	16.9	16.9
Public / Others	5.2	4.9	4.9

Valuation (x)

	FY21A	FY22E	FY23E
P/E	22.4	27.7	22.8
EV/EBITDA	17.4	15.2	12.9
ROE (%)	27.3	21.6	21.6
RoACE (%)	14.6	14.6	15.3

Estimates (Rs mn)

	FY21A	FY22E	FY23E
Revenue	63,283	73,745	83,821
EBITDA	15,139	17,552	20,748
PAT	11,034	8,914	10,802
EPS (Rs.)	142.8	115.4	139.8

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Exhibit 1: Actual V/s DART estimates (Rs mn)

Particulars	Actual	DART Est	% Variance	Comments
Revenue (Rs mn)	16,337	15,870	2.9	-0.7%/ +3.6% lower/ higher than estimated volume/ realization
EBITDA (Rs mn)	3,996	3,138	27.4	+3.6%/ -2.4% higher/ lower than estimated realization/ cost
EBITDA%	24.5	19.8	469	
PAT (Rs mn)	2,083	1,387	50.1	Led by operating efficiency

Source: Company, DART

Exhibit 2: Change in estimates – Broadly maintain FY22E/ FY23E revenue but increase EBITDA and APAT

(Rs mn)	FY22E			FY23E		
	New	Old	% change	New	Old	%change
Net revenues	73,745	72,245	2.1	83,821	81,024	3.5
EBIDTA	17,552	16,596	5.8	20,748	19,447	6.7
EBIDTA margin (%)	23.8	23.0	83	24.8	24.0	75
Adj. Net Profit	8,914	8,259	7.9	10,802	10,074	7.2
EPS (Rs)	115.4	106.9	7.9	139.8	130.4	7.2

Source: DART, Company

Exhibit 3: Grey Cement

Particulars	Q1FY22	Q1FY21	YoY (%)	Q4FY21	QoQ (%)	FY21	FY20	YoY (%)
Volume (mt)	3.02	1.77	71.0	3.89	(22.4)	11.64	9.77	19.1
Revenue (Rs)	16,337	9,650	69.3	20,525	(20.4)	63,283	54,638	15.8
Realization/ tn (Rs)	5,407	5,463	(1.0)	5,270	2.6	5,436	5,590	(2.8)

Source: Company, DART

Exhibit 4: White Cement

Particulars	Q1FY22	Q1FY21	YoY (%)	Q4FY21	QoQ (%)	FY21	FY20	YoY (%)
Volume (mt)	2.76	1.59	73.4	3.50	(21.2)	10.30	8.45	21.9
Revenue (Rs)	12,903	7,394	74.5	15,464	(16.6)	46,288	38,240	21.0
Realization/ tn (Rs)	4,679	4,648	0.7	4,416	5.9	4,495	4,527	(0.7)

Source: Company, DART

Exhibit 5: Per ton matrix (Grey + White)

Particulars	Q1FY22	Q1FY21	YoY (%)	Q4FY21	QoQ (%)	FY21	FY20	YoY (%)
Volume (mt)	3.02	1.77	71.0	3.89	(22.4)	11.64	9.77	19.1
Realization/ tn (Rs)	5,407	5,463	(1.0)	5,270	2.6	5,436	5,590	(2.8)
Blended EBITDA/ tn	1,323	1,219	8.5	1,127	17.3	1,301	1,209	7.6
Cost/ tn	4,085	4,244	(3.8)	4,143	(1.4)	4,136	4,382	(5.6)
Raw Material Cost/ tn	795	1,105	(28.0)	880	(9.6)	903	885	2.0
Employee Expenses/ tn	410	538	(23.8)	282	45.5	354	400	(11.5)
Power and Fuels/ tn	989	867	14.1	908	8.9	948	1,035	(8.4)
Freight Expenses/ tn	1,107	994	11.4	1,080	2.5	1,065	1,056	0.9
Other expenses/ tn	783	740	5.7	992	(21.1)	866	1,006	(13.9)

Source: Company, DART

Exhibit 6: % of revenue

Particulars	Q1FY22	Q1FY21	Bps	Q4FY21	Bps	FY21	FY20	Bps
Raw Material Cost	14.7	20.2	(552)	16.7	(199)	16.6	15.8	78
Employee Expenses	7.6	9.8	(227)	5.3	223	6.5	7.2	(64)
Power and Fuels	18.3	15.9	243	17.2	107	17.4	18.5	(107)
Freight Expenses	20.5	18.2	229	20.5	(2)	19.6	18.9	70
Other expenses	14.5	13.5	93	18.8	(435)	15.9	18.0	(206)
Total expenses	75.5	77.7	(215)	78.6	(307)	76.1	78.4	(230)

Source: Company, DART

Key earnings concall KTAs

- **Volume** - Trade: Non trade mix 68:32 in Q1FY22 vs. 63:37 inQ4FY21 and OPC:PPC was 38:62 in Q1FY22 vs. 42:58 in Q4FY21. Lead distance is 450 km in Q1FY22 vs. 459 kms in Q4FY21. Road:Rail mix is 84:16 in Q1FY22 vs. 79:21 in Q4FY21. Share of premium cement in trade mix was 5% in Q1FY22. Clinker sale was 76,000 tonnes in Q1FY22. Utilization was 71% in Q1FY22.
- **Vision is to maintain leadership in North and expanding in Central region**.
- **Realization/ Cement Prices** – Prices saw a decline of Rs5-Rs6/ bag in July'21 and Aug'21 in North and Central and higher in South. Price difference between Trade and Non Trade segment stands at Rs30/ bag. There are no one off in the grey cement revenue, per tonne realizations improved (+5.9% QoQ) on account of lower clinker sales and higher trade sales.
- The company has plans to increase the share of blended cement from 62% to 70% in the future, depending on the type the demand as well. Central region has higher demand for blended cement.
- White cement saw decline in realization on account of lower demand in April'21 and May'21, as it is mainly sold in urban areas which were impacted by lockdown due to 2nd wave of COVID-19.
- Increase in employee cost was mainly on account of increments given from April'21 and new recruitments were made in order to service the new markets, it is expected to stay at these levels.
- **Debt** – Gross Debt/ Net Debt stood at Rs28.1 bn/ Rs14 bn as on Jun'21. Wont cross range of Rs30 bn for Net Debt, even post Panna expansion. Company repaid Rs1.0 bn of debt of its UAE subsidiary in Q1FY22 and debt stands at Rs2.6 bn (to be repaid over 2 years) as on Q1FY22.
- **Capex** – Rs12.5 bn (Rs 9bn for Panna expansion + Rs 500 mn pending for Nimbahera line 3 upgradation + Rs500-600 mn pending for Mangrol plant + routine maintenance) for FY22 and Rs14-15 bn (Rs12-13 bn for Panna expansion + Rs 2bn routine maintenance) for FY23.
- Management has kept a benchmark of 25% EBITDA margins.
- **4 MTPA Panna expansion** – JKCE is setting up an integrated greenfield grey cement plant of 4mtpa by wholly owned subsidiary Jaykaycem (Central) Ltd **(board approved amalgamation w.e.f. 1 Apr'21)** at Panna, MP with split grinding unit in UP with a **capex of Rs29.7 bn** (Equity - Rs13 bn, Debt - Rs17 bn). Out of Rs29.7 bn, **Rs4.4 bn** have already been **spent and capex for FY22/ FY23/ FY24 is Rs9 bn/ Rs12-13 bn and Rs5-6 bn**. Civil & Mechanical Contracts have been finalized and placed orders for main equipment. Civil contractors have mobilized the team at Panna site and started work. This expansion includes **clinker** plant of 8,000 tpd (**2.5mtpa**) with **22MW WHRS**, **2mtpa** cement **grinding** unit **at Panna**, **MP**, and **2mtpa split grinding** unit **at Hamirpur (near Kanpur) in UP**.

This plant has no railway siding and no thermal power plant. This plant will have tax benefit (eligible for 25% tax rate) and already has 2 mining leases at subsidiary level for 50 years. Currently it will operate 1 mining lease and will make 2 lease operational in next 2 years. It has obtained EC for plant and mining. Factory land and 600 acres of mining land acquired and will buy additional 300-400 acres of land before commission of plant. JKCE is covering half UP from its North plants and other half of UP and entire MP will be covered by this Panna plant. The ground breaking ceremony took place on 5 May'21 **and shall complete by Q4FY23 (earlier Q1FY24)**. Cost of this plant is comparatively higher as have to buy entire land and mining leases etc. However, in future, any additional expansion in the same plant will be a done at a substantially lower cost as basic infra is ready. Utilization in year 1 is expected to be 60% and will be increased to 75% in coming years.

- **Upgradation of line 3 at Nimbahera** – JKCE spent Rs3.87 bn till Jun'21 out of Rs4.05 bn and balance to be spent in Q2FYFY22. This will increase clinker production by 1000 TPD. JKCE expects commissioning of the same by Q2FY22 and expects Rs100/tn savings on production from this plant starting from Q3FY22.
- **Cost Savings** – JK cement has good amount of inventory and have good long-term contracts with dealers, helped company reduce the impact of pet coke and coal spot prices. Pet coke prices saw an increase of Rs2,500/ tn QoQ in Q2FY22 and imported coal prices gone up by 25% on purchase basis and on consumption basis 10% in Q2FY22. Full impact of pet coke cost inflation will be felt in Q3FY22. P&F cost savings are visible when Nimbahera expansion is complete, will witness further savings of Rs150/tn from Q3FY22 onwards as demand picks up.
- Diesel price increase already impacting the cost but expect some improvement due to expansion and efficiency.
- JKCE has a target to increase green power from 25% in FY21 to 75% in FY30. This will be done by increasing share of WHRS (25% to 50%), Solar and Wind power. May setup 15MW WHRS at Karnataka plant costing Rs1.5-Rs1.8 bn. Also thinking to set up solar plants in all the cement plants on opex model.
- **Fuel** Mix stands at 40% petcoke and 60% imported coal and AFR in Q1FY22 vs. 35% petcoke and 65% imported coal and AFR in Q4FY21.
- **UAE operations** – Volumes at UAE for Q1FY22/ Q4FY21 stood at 0.13mt/0.112mt. Impairment of Rs3.45 bn done in past 2 years, most likely don't expect further impairment, depends on covid situation. Debt stands at Rs2.6 bn and JKCE will most likely have to pay for the same over a period of 2 years.
- Amalgamation with Jaykaycem should take another 6-8 months, as the company is waiting for approvals from authorities.

Exhibit 7: Q1FY22 performance (standalone)

(Rs mn)	Q1FY22	Q1FY21	YoY (%)	Q4FY21	QoQ (%)	FY21	FY20	YoY (%)
Total Revenue	16,337	9,650	69.3	20,525	(20.4)	63,283	54,638	15.8
Raw Material Cost	2,403	1,953	23.1	3,428	(29.9)	10,510	8,650	21.5
Employee Expenses	1,238	950	30.3	1,097	12.9	4,121	3,909	5.4
Power and Fuel	2,989	1,531	95.2	3,537	(15.5)	11,036	10,115	9.1
Freight Cost	3,346	1,755	90.6	4,207	(20.5)	12,398	10,321	20.1
Other expenses	2,365	1,307	80.9	3,865	(38.8)	10,078	9,827	2.5
Total Expenditure	12,341	7,497	64.6	16,134	(23.5)	48,144	42,822	12.4
PBIDT (Excl. OI)	3,996	2,153	85.6	4,391	(9.0)	15,139	11,815	28.1
Other Income	273	203	34.2	340	(19.9)	1,134	859	32.0
Depreciation	657	580	13.3	649	1.3	2,447	2,144	14.1
EBIT	3,612	1,776	103.4	4,083	(11.5)	13,826	10,530	31.3
Interest	560	572	(2.1)	529	5.8	2,232	2,229	0.1
PBT (Excl. E.O)	3,052	1,204	153.4	3,553	(14.1)	11,594	8,302	39.7
Exceptional Items	-	-	-	1,669	(100.0)	1,669	1,782	(6.3)
PBT (Incl. E.O)	3,052	1,204	153.4	1,885	61.9	9,925	6,520	52.2
Tax	969	427	126.7	1,251	(22.5)	3,897	2,516	54.9
RPAT	2,083	777	168.1	633	228.8	6,028	4,004	50.6
Adjustments	-	-	-	1,669	-	1,669	1,782	(6.3)
APAT	2,083	777	168.1	2,302	(9.5)	7,697	5,785	33.0
Adj. EPS (Rs)	26.95	10.05	168.1	29.79	(9.5)	99.61	74.87	33.0
			bps		**bps**			**bps**
EBIDTA Margin (excl. O.I.)	24.5	22.3	215	21.4	307	23.9	21.6	230
NPM (%)	12.7	8.1	470	11.2	153	12.2	10.6	157
Tax Rate (%)	31.8	35.5	(374)	66.4	(3,463)	39.3	38.6	67

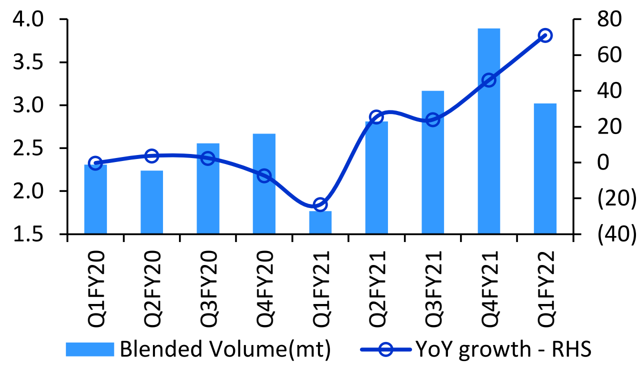
Source: DART, Company

Exhibit 8: Valuation

Particulars	(Rs mn)
Assumed EV/EBITDA multiple (x)	13.0
EBITDA (FY23E)	20,748
(a) EV	2,69,728
(b) Less: Net Debt (FY23E)	17,112
(c) 50 % of Sep'22E Capital WIP	2,653
1x P/B - Investment in J. K. (d) Cement (Fujairah) FZC, UAE	4,128
Mcap (a-b+c+d)	2,59,396
Shares o/s (mn)	77
Target price (Rs)	3,357
CMP (Rs)	3,192
Up/(down)side (%)	5.2

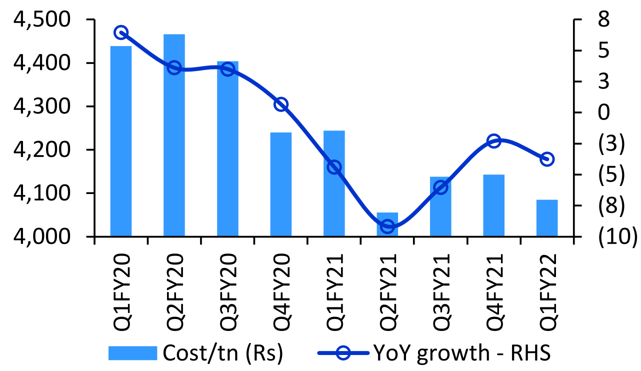
Source: Company, DART

Exhibit 9: Blended Volume (mt)



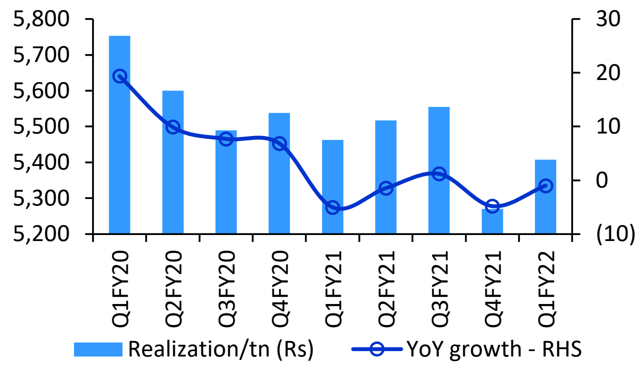
Source: Company, DART

Exhibit 10: Cost/tn (Rs)



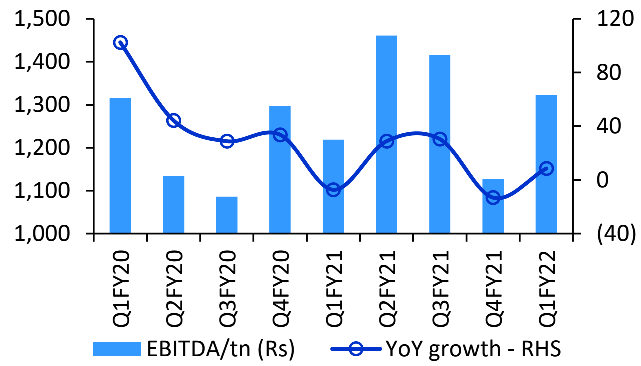
Source: Company, DART

Exhibit 11: Realization/tn (Rs)



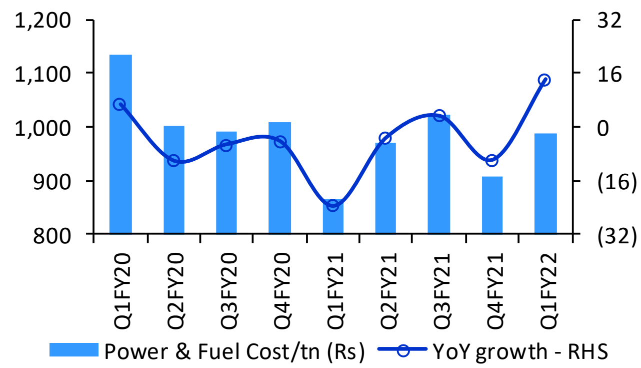
Source: Company, DART

Exhibit 12: EBITDA/tn (Rs)



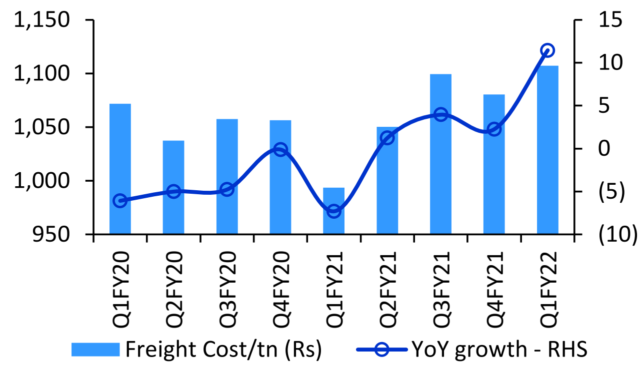
Source: Company, DART

Exhibit 13: Power & fuel cost/tn (Rs)



Source: Company, DART

Exhibit 14: Freight cost/tn (Rs)



Source: Company, DART

Profit and Loss Account

(Rs Mn)	FY20A	FY21A	FY22E	FY23E
Revenue	**54,638**	**63,283**	**73,745**	**83,821**
Total Expense	**42,822**	**48,144**	**56,193**	**63,073**
COGS	29,086	33,945	39,854	44,798
Employees Cost	3,909	4,121	4,946	5,440
Other expenses	9,827	10,078	11,393	12,835
EBIDTA	**11,815**	**15,139**	**17,552**	**20,748**
Depreciation	2,144	2,447	2,929	3,331
EBIT	**9,671**	**12,692**	**14,623**	**17,417**
Interest	2,229	2,232	2,424	2,468
Other Income	859	1,134	1,106	1,173
Exc. / E.O. items	1,782	1,669	0	0
EBT	**10,083**	**13,263**	**13,305**	**16,122**
Tax	2,516	3,897	4,390	5,320
RPAT	7,567	9,366	8,914	10,802
Minority Interest	0	0	0	0
Profit/Loss share of associates	**0**	**0**	**0**	**0**
APAT	**9,348**	**11,034**	**8,914**	**10,802**

Balance Sheet

(Rs Mn)	FY20A	FY21A	FY22E	FY23E
Sources of Funds				
Equity Capital	773	773	773	773
Minority Interest	0	0	0	0
Reserves & Surplus	30,516	36,558	44,313	53,956
Net Worth	**31,289**	**37,331**	**45,086**	**54,729**
Total Debt	27,602	29,804	30,804	30,904
Net Deferred Tax Liability	4,181	5,939	5,939	5,939
Total Capital Employed	**63,072**	**73,075**	**81,830**	**91,572**
Applications of Funds				
Net Block	**44,681**	**48,089**	**50,240**	**68,909**
CWIP	5,092	4,885	12,305	5,305
Investments	5,652	7,188	7,188	7,188
Current Assets, Loans & Advances	**23,126**	**31,527**	**33,213**	**33,690**
Inventories	6,272	6,867	8,284	9,622
Receivables	2,234	3,161	3,839	4,363
Cash and Bank Balances	6,311	11,618	10,434	8,459
Loans and Advances	0	0	0	0
Other Current Assets	8,298	9,000	9,774	10,364
Less: Current Liabilities & Provisions	**15,479**	**18,615**	**21,116**	**23,520**
Payables	4,526	5,500	6,061	6,889
Other Current Liabilities	10,953	13,115	15,055	16,630
sub total				
Net Current Assets	7,647	12,913	12,097	10,171
Total Assets	**63,072**	**73,075**	**81,830**	**91,572**

E – Estimates

Important Ratios

Particulars	FY20A	FY21A	FY22E	FY23E
(A) Margins (%)				
Gross Profit Margin	46.8	46.4	46.0	46.6
EBIDTA Margin	21.6	23.9	23.8	24.8
EBIT Margin	17.7	20.1	19.8	20.8
Tax rate	25.0	29.4	33.0	33.0
Net Profit Margin	13.8	14.8	12.1	12.9
(B) As Percentage of Net Sales (%)				
COGS	53.2	53.6	54.0	53.4
Employee	7.2	6.5	6.7	6.5
Other	18.0	15.9	15.4	15.3
(C) Measure of Financial Status				
Gross Debt / Equity	0.9	0.8	0.7	0.6
Interest Coverage	4.3	5.7	6.0	7.1
Inventory days	42	40	41	42
Debtors days	15	18	19	19
Average Cost of Debt	8.7	7.8	8.0	8.0
Payable days	30	32	30	30
Working Capital days	51	74	60	44
FA T/O	1.2	1.3	1.5	1.2
(D) Measures of Investment				
AEPS (Rs)	121.0	142.8	115.4	139.8
CEPS (Rs)	148.7	174.5	153.3	182.9
DPS (Rs)	17.5	0.0	15.0	0.0
Dividend Payout (%)	14.5	0.0	13.0	0.0
BVPS (Rs)	404.9	483.1	583.5	708.3
RoANW (%)	25.1	27.3	21.6	21.6
RoACE (%)	13.5	14.6	14.6	15.3
RoAIC (%)	17.9	21.5	22.0	22.5
(E) Valuation Ratios				
CMP (Rs)	3192	3192	3192	3192
P/E	26.4	22.4	27.7	22.8
Mcap (Rs Mn)	2,46,629	2,46,629	2,46,629	2,46,629
MCap/ Sales	4.5	3.9	3.3	2.9
EV	2,67,909	2,63,933	2,66,116	2,68,191
EV/Sales	4.9	4.2	3.6	3.2
EV/EBITDA	22.7	17.4	15.2	12.9
P/BV	7.9	6.6	5.5	4.5
Dividend Yield (%)	0.5	0.0	0.5	0.0
(F) Growth Rate (%)				
Revenue	9.7	15.8	16.5	13.7
EBITDA	45.8	28.1	15.9	18.2
EBIT	57.1	31.2	15.2	19.1
PBT	112.9	31.5	0.3	21.2
APAT	187.7	18.0	(19.2)	21.2
EPS	187.7	18.0	(19.2)	21.2

Cash Flow

(Rs Mn)	FY20A	FY21A	FY22E	FY23E
CFO	10,988	15,660	12,502	14,882
CFI	(9,086)	(10,291)	(11,744)	(13,978)
CFF	112	(63)	(1,942)	(2,879)
FCFF	1,098	9,424	2	(118)
Opening Cash	4,297	6,312	11,618	10,434
Closing Cash	6,312	11,618	10,434	8,459

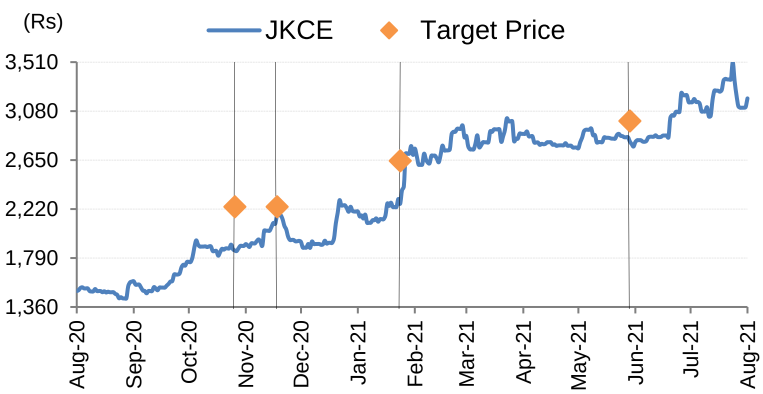
E – Estimates

DART RATING MATRIX

Total Return Expectation (12 Months)

Buy	**> 20%**
Accumulate	**10 to 20%**
Reduce	**0 to 10%**
Sell	**< 0%**

Rating and Target Price History



Month	Rating	TP (Rs.)	Price (Rs.)
Nov-20	Accumulate	2,240	1,856
Dec-20	Buy	2,240	2,166
Feb-21	Buy	2,643	2,267
Jun-21	Accumulate	2,994	2,813

*Price as on recommendation date

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