

Estimate change	↔
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Bloomberg	JKCE IN
Equity Shares (m)	77
M.Cap.(INRb)/(USD\$)	240.4 / 3.2
52-Week Range (INR)	3690 / 1412
1, 6, 12 Rel. Per (%)	-8/7/62
12M Avg Val (INR M)	250

Financial Snapshot (INR b)

Y/E MARCH	2021	2022E	2023E
Sales	66.1	77.9	86.1
EBITDA	15.4	17.4	20.2
Adj. PAT	7.0	8.4	10.3
EBITDA Margin (%)	23.3	22.3	23.5
Adj. EPS (INR)	91.0	108.6	133.1
EPS Gr. (%)	45.5	19.4	22.5
BV/Sh. (INR)	484	572	681

Ratios

Net D:E	0.4	0.4	0.4
RoE (%)	21.0	20.6	21.2
RoCE (%)	12.9	13.5	14.0
Payout (%)	16.5	18.4	18.0

Valuations

P/E (x)	34.2	28.7	23.4
P/BV (x)	6.4	5.4	4.6
EV/EBITDA(x)	16.3	14.1	11.6
EV/ton (USD)	206	200	192
Div. Yield (%)	0.5	0.6	0.8
FCF Yield (%)	3.4	1.3	0.6

Shareholding pattern (%)

As On	Jun-21	Mar-21	Jun-20
Promoter	57.6	57.7	58.1
DII	20.6	20.6	23.3
FII	16.9	16.9	13.5
Others	4.9	4.9	5.2

FII Includes depository receipts

CMP: INR3,112 TP: INR3,585 (+15%) Buy

Market share gains to drive earnings

Central India expansion a long-term positive

- J K Cement (JKCE) continues to gain market share, with volumes up 71% YoY in 1QFY22, led by a ~40% capacity expansion. We expect this to continue over the next 4–5 years as the company is now setting up a 4mtpa greenfield plant (commissioning by 1QFY24) in Central India. This plant should improve the regional mix for North and Central India to ~85%.
- We keep our estimates broadly unchanged and reiterate **Buy** on a 21% EPS CAGR over FY21–23E, driven by a 12% volume CAGR.

Higher grey cement realization drives 21% beat on EBITDA

- Standalone revenue / EBITDA / adjusted PAT rose 69%/86%/168% YoY to INR16.3b/INR4.0b/INR2.1b in 1QFY22, beating our estimate by 4%/21%/27% – driven by higher grey cement realization (up 1% YoY) at INR4,679/t (+6% QoQ) v/s our est. of INR4,536/t.
- Volumes were up 71% YoY to 3.02mt (in line with est.) – Grey Cement (incl. clinker) rose 73% YoY to 2.76mt and White Cement was up 50% YoY to 0.26mt.
- Blended realization was up 3% QoQ at INR5,407/t (v/s our est. of INR5.193/t), led by higher cement realization and a higher mix of grey cement at 91.3% (v/s 89.9% in 4QFY21).
- EBITDA/t beat our est. of INR1,097/t and stood at INR1,323/t (+17% QoQ, +9% YoY). This was driven by higher grey cement realization as cost/t fell 1% QoQ to INR4,085 (-4% YoY), but was in line with our estimate.
- As a result, EBITDA was up 86% YoY to INR4.0b, while margins came in at 24.5% (+2.15pp YoY, +3.07pp QoQ; est. 21.1%).
- Standalone gross/net debt stood at INR28.1b/INR14.0b v/s INR28.4b/INR11.3b in Mar'21. Thus, net debt/EBITDA came in at 0.83x v/s 0.75x in Mar'21.
- The Nimbahera Line 3 upgrade is progressing as per schedule and expected to be completed in 2QFY22. INR3.9b out of the budgeted capex of INR4.1b has been spent to date.
- The greenfield expansion at Panna and grinding unit at Hamirpur are expected to be completed by Mar'23. INR4.4b out of the budgeted capex of INR29.7b has been spent to date.

Valuation and view

- We expect JKCE to deliver an above-industry volume CAGR of 12% over FY21–23E on account of its expansion in North India. The announced expansion at Panna should continue to drive market share gains over the long term as well as improve its regional mix in favor of North/Central India. It should help the company move down the cost curve by lowering power and fuel as well as other costs.
- Our TP of INR3,585/share is based on 15x Sep'23E EV/EBITDA for the White Cement business and 12x for the Grey Cement business. **Maintain Buy**.

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Investors are advised to refer through important disclosures made at the last page of the Research Report.

Motilal Oswal research is available on www.motilaloswal.com/Institutional-Equities, Bloomberg, Thomson Reuters, Factset and S&P Capital.

Standalone quarterly performance

(INR m)

Y/E March	FY21				FY22				FY21	FY22E	FY22E	Var. (%)
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE			1QE	
Sales Dispatches (mt)	1.77	2.81	3.17	3.89	3.02	3.16	3.41	4.05	11.64	13.64	3.02	0
YoY Change (%)	-23.5	25.5	23.9	46.0	71.1	12.4	7.6	4.0	19.1	17.2	71.1	
Realization (INR/t)	5,464	5,517	5,556	5,270	5,407	5,546	5,518	5,448	5,437	5,479	5,193	4
YoY Change (%)	-5.0	-1.5	1.2	-4.8	-1.0	0.5	-0.7	3.4	-2.7	0.8	-5.0	
QoQ Change (%)	-1.3	1.0	0.7	-5.1	2.6	2.6	-0.5	-1.3			-1.5	
Net Sales	9,650	15,507	17,601	20,525	16,337	17,516	18,811	22,076	63,283	74,740	15,688	4
YoY Change (%)	-27.3	23.6	25.3	38.9	69.3	13.0	6.9	7.6	15.8	18.1	62.6	
Total Expenditure	7,497	11,400	13,113	16,134	12,341	13,586	14,597	17,147	48,144	57,672	12,374	0
EBITDA	2,153	4,107	4,488	4,391	3,996	3,930	4,214	4,928	15,139	17,069	3,314	21
Margin (%)	22.3	26.5	25.5	21.4	24.5	22.4	22.4	22.3	23.9	22.8	21.1	
Depreciation	580	597	622	649	657	657	677	715	2,447	2,706	650	
Interest	572	537	593	529	560	550	550	605	2,232	2,265	530	
Other Income	203	287	303	340	273	330	330	415	1,134	1,348	320	
PBT before EO expense	1,204	3,260	3,576	3,553	3,052	3,053	3,317	4,023	11,594	13,445	2,454	24
Extra-Ord. expense	0	0	0	1,669	0	0	0	0	1,669	0	0	
PBT	1,204	3,260	3,576	1,885	3,052	3,053	3,317	4,023	9,925	13,445	2,454	24
Tax	427	1,025	1,194	1,251	969	970	1,054	1,445	3,897	4,437	810	
Rate (%)	35.5	31.4	33.4	66.4	31.8	31.8	31.8	35.9	39.3	33.0	33.0	
Reported PAT	777	2,235	2,383	633	2,083	2,083	2,264	2,578	6,028	9,008	1,644	27
Adj. PAT	777	2,235	2,383	2,522	2,083	2,083	2,264	2,578	7,917	9,008	1,644	27
YoY Change (%)	-49.5	105.5	73.2	41.4	168.1	-6.8	-5.0	2.2	36.9	13.8	111.7	

E: MOFSL estimates

Standalone quarterly performance

(INR m)

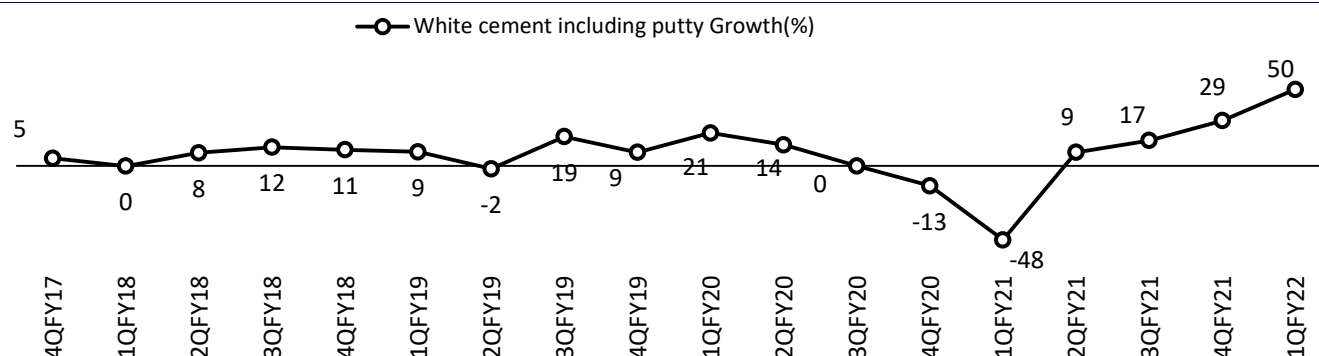
Y/E March	FY21				FY22				FY21	FY22E	FY22	Var
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE			1QE	(%)
Grey Cement (mt)	1.59	2.45	2.76	3.50	2.76	2.77	2.98	3.65	10.30	12.15	2.77	0
Growth (%)	-19.3	28.4	25.0	48.1	73.5	13.0	8.0	4.2	21.9	18.0	74.0	
% of total Vols.	90.0	87.2	87.0	89.9	91.3	87.7	87.3	90.0	88.5	89.1	91.6	
White Cement (mt)	0.18	0.36	0.41	0.39	0.26	0.39	0.43	0.40	1.34	1.49	0.26	3
Growth (%)	-48.0	8.8	16.6	29.4	49.7	8.0	5.0	2.7	1.1	11.0	44.9	
% of total Vols.	10.0	12.8	13.0	10.1	8.7	12.3	12.7	10.0	11.5	10.9	8.4	

Per tonne analysis (INR)

Net realization	5,464	5,517	5,556	5,270	5,407	5,546	5,518	5,448	5,437	5,479	5,193	4
RM Cost	1,106	877	841	880	795	890	890	893	903	870	850	-6
Employee Expenses	538	347	347	282	410	386	364	308	354	363	364	13
Power, Oil, and Fuel	867	970	1,023	908	989	1,059	1,069	1,055	948	1,045	1,010	-2
Freight and handling	994	1,050	1,100	1,080	1,107	1,127	1,137	1,140	1,065	1,129	1,110	0
Other Expenses	740	812	828	992	783	839	821	836	866	821	761	3
Total Exp.	4,245	4,056	4,139	4,143	4,085	4,302	4,282	4,232	4,136	4,228	4,096	0
EBITDA	1,219	1,461	1,417	1,127	1,323	1,244	1,236	1,216	1,301	1,251	1,097	21

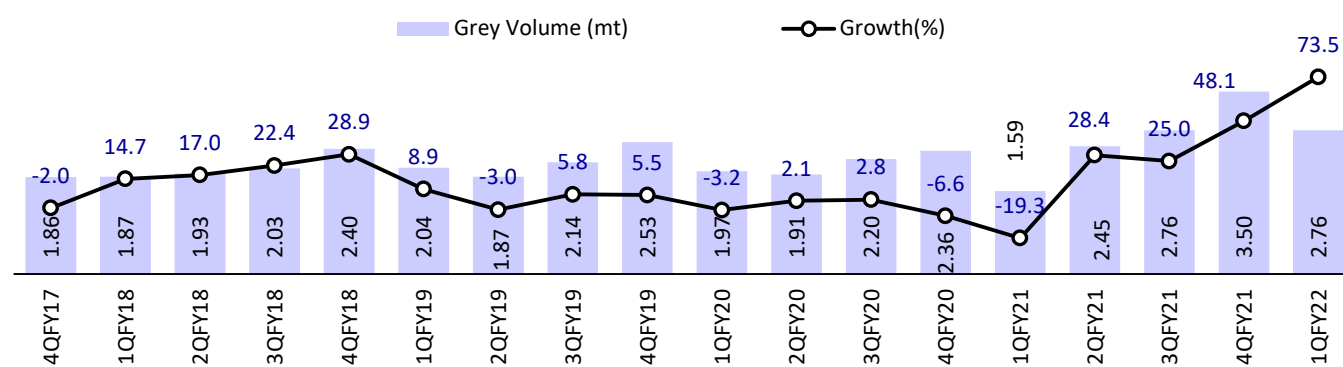
Key exhibits

Exhibit 1: White cement, including putty volumes, up 50% YoY in 1QFY22



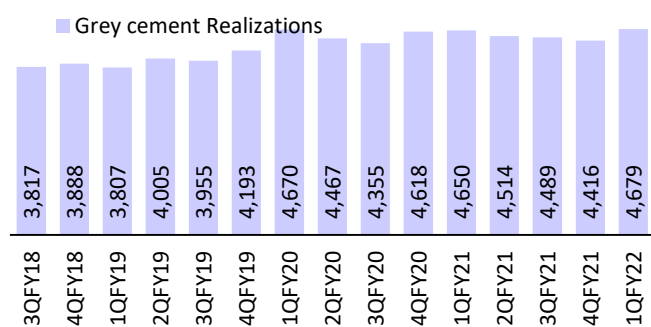
Source: MOFSL, Company

Exhibit 2: Grey cement volumes up 73% YoY in 1QFY22



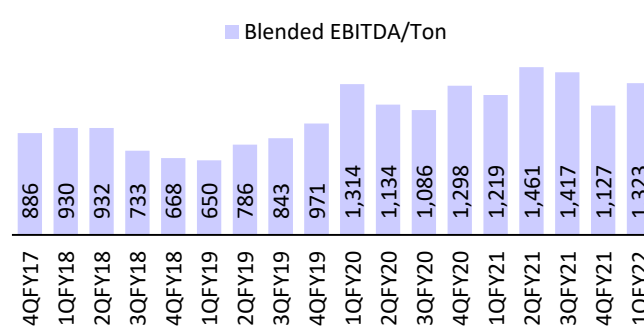
Source: Company, MOFSL

Exhibit 3: Grey cement realization up 1% YoY (INR/t)



Source: Company, MOFSL

Exhibit 4: Blended EBITDA/t (INR) up 9% YoY



Source: Company, MOFSL

Exhibit 5: Key performance indicators (blended)

INR/t	1QFY22	1QFY21	YoY	4QFY21	QoQ
Net realization	5,407	5,464	-1.0%	5,270	2.6%
RM Cost	795	1,106	-28.1%	880	-9.6%
Employee Expenses	410	538	-23.9%	282	45.5%
Power, Oil, and Fuel	989	867	14.1%	908	8.9%
Freight	1,107	994	11.4%	1,080	2.5%
Other Expenses	783	740	5.7%	992	-21.1%
Total Exp.	4,085	4,245	-3.8%	4,143	-1.4%
EBITDA	1,323	1,219	8.5%	1,127	17.3%

Source: Company, MOFSL

Valuation and view

Growing exposure to North/Central India a significant positive: After expanding its capacity in North India by 4.2mtpa, which is still being ramped up, JKCE has announced another lucrative 4mtpa expansion in Central India. These expansions bring three significant advantages to the company: i) strengthen its market share in North and Central India, the most attractive regions in the country, ii) reduce the share of South India in the volume mix to just ~12%, and iii) lower costs as ~90% of the grey cement capacity post expansion would be fuel-efficient. Once the Panna capacity is commissioned (likely by 1QFY24), the company's regional mix would improve further to ~85% in favor of North (65%) and Central (20%), while it would reduce to ~15% (from ~20%) in South India.

Upgrade and expansion at existing kiln at Nimbahera to improve EBITDA: JKCE is increasing the production capacity of one of its kilns at Nimbahera to 6,000tpd from 5,000tpd currently. This would help extend the GST benefits for the company up to CY27. Currently, it enjoys GST benefits at its Mangrol plant, which are due to expire in CY21. It is also upgrading the kiln by changing the pre-heater, a step that would result in power savings of 10–12 units and fuel savings of 40–50kcal. The capex required for the same is INR5b and would be completed by 2QFY22. These benefits should result in annual savings of INR300–400m for the company.

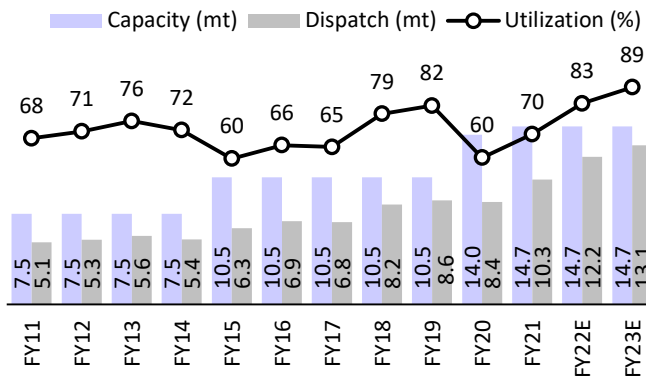
Putty capacity expansion provides growth visibility: JKCE recently expanded its wall putty capacity in Katni by 0.3mtpa, increasing the overall putty capacity to 1.2mtpa. White cement and putty currently contribute around one-third to overall EBITDA. This is a high-margin business and has been growing at an over 10% CAGR for the past few years. Expansion is, thus, timely and would help JKCE fully participate in market growth.

Significant brownfield potential in Central India: While JKCE is setting up a 4mtpa integrated plant at Panna (Madhya Pradesh), it has two mining leases with sufficient reserves to support expansion at this location (to 15mtpa). Once this capacity is commissioned (likely by 1QFY24), we expect the company to embark on further expansion at this location at lower capex (as it would be brownfield in nature).

Expect 21% EPS CAGR over FY21–23E: We expect JKCE to deliver a 21% EPS CAGR over FY21–23E, led by a 12% volume CAGR on account of its new capacity in North India. We arrive at our TP of INR3,585/share, valuing the White/Grey Cement business at 15x/12x Sep'23E EV/EBITDA. **Maintain Buy.**

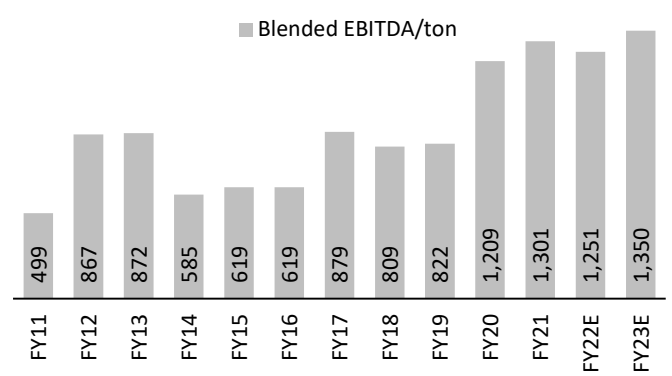
Story in charts

Exhibit 6: Expansion to aid volume growth



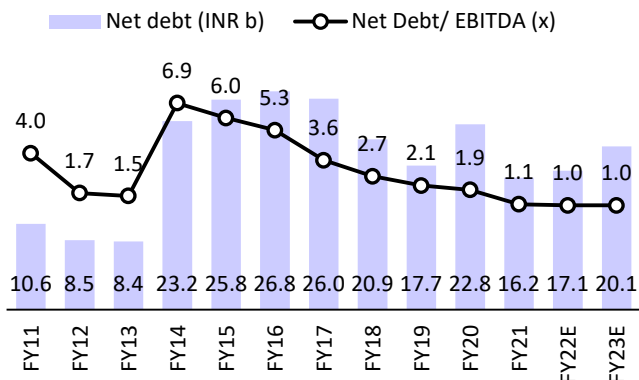
Source: Company, MOFSL

Exhibit 7: Blended EBITDA/t trend (INR)



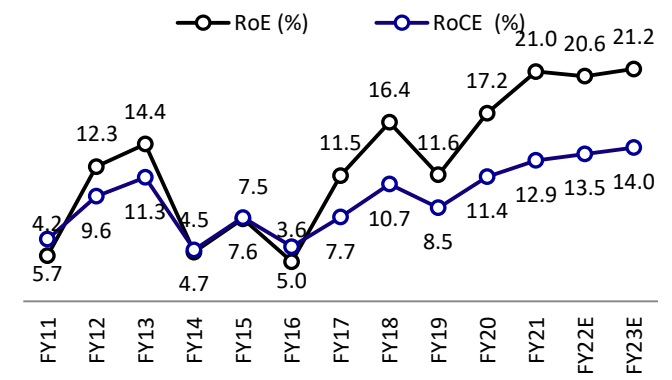
Source: Company, MOFSL

Exhibit 8: Net debt/EBITDA trend



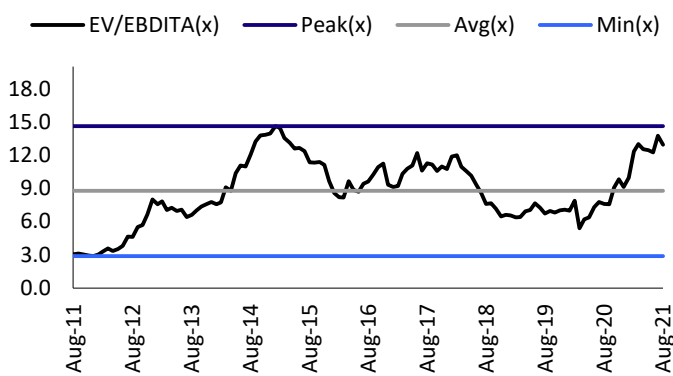
Source: MOFSL, Company

Exhibit 9: Return ratios should continue to improve (%)



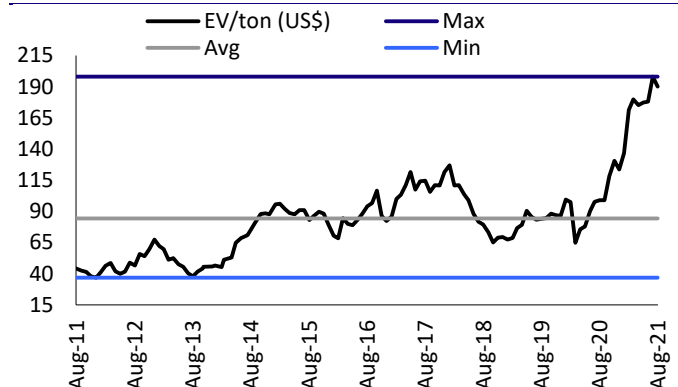
Source: MOFSL, Company

Exhibit 10: JKCE's EV/EBITDA trend



Source: MOFSL, Company

Exhibit 11: JKCE's EV/t trend



Source: MOFSL, Company

Financials and valuations

Income Statement							(INR m)	
Y/E March	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E
Net Sales	37,463	40,214	48,535	52,587	58,016	66,061	77,885	86,071
Change (%)	10.6	7.3	20.7	8.3	10.3	13.9	17.9	10.5
EBITDA	5,065	7,261	7,875	8,345	12,134	15,387	17,367	20,237
Margin (%)	13.5	18.1	16.2	15.9	20.9	23.3	22.3	23.5
Depreciation	1,974	2,169	2,313	2,413	2,880	3,062	3,322	3,475
EBIT	3,091	5,092	5,561	5,932	9,255	12,325	14,046	16,762
Int. and Finance Charges	3,049	3,027	2,841	2,611	2,764	2,528	2,561	2,493
Other Income - Rec.	895	984	1,269	804	853	1,130	1,344	1,357
PBT bef. EO Exp.	936	3,049	3,989	4,124	7,344	10,927	12,829	15,626
EO Expense/(Income)	0	193	157	0	0	0	0	0
PBT after EO Exp.	936	2,856	3,832	4,124	7,344	10,927	12,829	15,626
Current Tax	388	705	941	1,037	1,593	3,296	3,361	4,050
Deferred Tax	0	432	35	451	917	600	1,076	1,296
Tax Rate (%)	41.4	39.8	25.5	36.1	34.2	35.7	34.6	34.2
Reported PAT	548	1,719	2,856	2,636	4,834	7,031	8,392	10,281
PAT adj. for EO items	548	1,835	2,973	2,636	4,834	7,031	8,392	10,281
Change (%)	-56.1	234.8	62.0	-11.3	83.4	45.5	19.4	22.5
Margin (%)	1.5	4.6	6.1	5.0	8.3	10.6	10.8	11.9
Less: Minority Interest	-30.2	-57.7	-39.9	-67.1	-90.0	-66.2	0.0	0.0
Net Profit	578	1,893	3,013	2,703	4,924	7,097	8,392	10,281

Balance Sheet							(INR m)	
Y/E March	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E
Equity Share Capital	699	699	699	773	773	773	773	773
Total Reserves	15,171	16,408	19,049	26,249	29,504	36,595	43,441	51,868
Net Worth	15,870	17,107	19,749	27,022	30,277	37,367	44,214	52,640
Deferred Liabilities	2,165	2,599	2,670	3,123	4,173	5,930	7,005	8,301
Minority Interest	98	40	0	-72	-203	-257	-257	-257
Total Loans	31,204	30,961	27,306	26,779	32,840	34,017	34,017	39,017
Capital Employed	49,337	50,706	49,724	56,852	67,086	77,057	84,979	99,701
Gross Block	53,636	58,456	59,334	62,681	75,780	82,126	86,511	90,011
Less: Accum. Deprn.	11,100	13,039	14,900	17,313	20,235	22,752	26,074	29,549
Net Fixed Assets	42,535	45,417	44,433	45,367	55,545	59,374	60,437	60,462
Capital WIP	3,211	1,267	1,043	5,618	5,295	5,093	13,208	26,208
Total Investments	786	803	1,189	4,383	458	1,422	1,422	1,422
Curr. Assets, Loans and Adv.	15,261	16,621	17,877	18,810	24,122	32,831	33,281	36,694
Inventory	4,931	5,609	5,898	6,365	6,904	7,566	8,809	9,666
Account Receivables	2,113	2,019	2,358	2,606	2,677	3,615	3,526	3,851
Cash and Bank Balance	3,731	4,353	5,595	5,115	6,345	16,416	15,542	17,574
Loans and Advances	4,486	4,640	4,026	4,722	8,196	5,233	5,403	5,603
Curr. Liability and Prov.	12,511	13,403	14,818	17,325	18,334	21,663	23,370	25,086
Account Payables	12,141	13,074	14,316	16,809	16,725	20,276	21,919	23,568
Provisions	370	329	502	516	1,609	1,388	1,451	1,518
Net Current Assets	2,750	3,219	3,059	1,484	5,788	11,167	9,911	11,608
Appl. of Funds	49,282	50,706	49,724	56,852	67,086	77,057	84,979	99,701

E: MOFSL estimates

Financials and valuations

Ratios

Y/E March	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E
Basic (INR)*								
Consol. EPS	7.8	26.2	42.5	34.1	62.6	91.0	108.6	133.1
Cash EPS	36.1	57.3	75.6	65.3	99.8	130.6	151.6	178.0
BV/Share	227.0	244.6	282.4	349.7	391.8	483.6	572.2	681.3
DPS	3.6	7.2	9.0	10.0	17.5	15.0	20.0	24.0
Payout (%)	61.4	39.2	29.5	35.3	33.7	16.5	18.4	18.0
Valuation (x)*								
P/E						34.2	28.7	23.4
Cash P/E						23.8	20.5	17.5
P/BV						6.4	5.4	4.6
EV/Sales						3.8	3.1	2.7
EV/EBITDA						16.3	14.1	11.6
EV/t (USD)						206	200	192
Dividend Yield (%)						0.5	0.6	0.8
Return Ratios (%)								
RoIC	4.4	7.1	9.6	9.1	13.0	15.0	16.9	20.2
RoE	3.6	11.5	16.4	11.6	17.2	21.0	20.6	21.2
RoCE	5.0	7.7	10.7	8.5	11.4	12.9	13.5	14.0
Working Capital Ratios								
Asset Turnover (x)	0.8	0.8	1.0	0.9	0.9	0.9	0.9	0.9
Inventory (Days)	48.0	50.9	44.4	44.2	43.4	41.8	41.3	41.0
Debtor (Days)	18	16	17	18	17	20	17	16
Creditor (Days)	118	119	108	117	105	112	103	100
Working Capital Turnover (Days)	-10	-10	-19	-25	-24	-29	-26	-25
Leverage Ratio (x)								
Current Ratio	1.2	1.2	1.2	1.1	1.3	1.5	1.4	1.5
Debt/Equity	2.0	1.8	1.4	1.0	1.1	0.9	0.8	0.7

Cash Flow Statement

(INR m)

Y/E March	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E
OP/(Loss) before Tax	1,010	2,856	3,832	4,124	7,344	10,927	12,829	15,626
Depreciation	1,974	2,170	2,313	2,413	2,880	3,062	3,322	3,475
Interest and Finance Charges	2,629	2,527	2,348	2,209	1,975	1,666	2,561	2,493
Direct Taxes Paid	-306	-633	-996	-977	-1,530	-1,959	-3,361	-4,050
(Inc.)/Dec. in WC	722	416	1,193	-778	2,819	1,715	383	334
CF from Operations	6,029	7,335	8,691	6,991	13,488	15,411	15,733	17,879
Others	-229.1	382.9	140.7	5	179.2	490	0	0
CF from Operations incl. EO	5800	7718.2	8831.2	6996.1	13,668	15,901	15,733	17,879
(Inc.)/Dec. in FA	-3,813	-3,840	-1,443	-6,191	-12,428	-7,678	-12,500	-16,500
Free Cash Flow	1,987	3,879	7,388	805	1,240	8,223	3,233	1,379
(Pur.)/Sale of Investments	-499	8	-369	-3,193	-2,622	-11,747	0	0
Others	4	192	1,642	182	3,693	11,665	0	0
CF from Investments	-4,308	-3,640	-170	-9,202	-11,357	-7,760	-12,500	-16,500
Issue of Shares	0	0	0	5,043	0	0	0	0
Inc./(Dec.) in Debt	1,413	328	-4,010	328	3,133	1,120	0	5,000
Interest Paid	-3,009	-2,971	-2,789	-2,798	-2,507	-2,427	-2,561	-2,493
Dividend Paid	-337	-337	-673	-843	-1,630	0	-1,545	-1,854
Others	0	-476	54	-3	-77	-68	0	0
CF from Fin. Activity	-1,932	-3,456	-7,419	1,727	-1,081	-1,375	-4,107	653
Inc./Dec. in Cash	-440	622	1,242	-479	1,229	6,767	-874	2,032
Opening Balance	4,171	3,731	4,353	5,595	5,116	9,650	16,416	15,542
Closing Balance	3,731	4,353	5,595	5,116	6,345	16,416	15,542	17,574

NOTES

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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