

25<sup>th</sup> January 2022

CMP – ₹3285/-

View – Accumulate on Dips

### Company Background

Established since 1975, JK Cements (JKCE) is a leading cement player in North India with an annual turnover of ₹66,061mn (FY21). It has a grey cement capacity of ~14.7MTPA and captive power capacity 125.7MW. Second largest white cement capacity of 1.2MTPA in India (white cement capacity of 0.6MTPA in Kulti, Rajasthan and Fujariah each respectively) and wall putty capacity of 1.1MTPA in India.

### Important Statistics

MCAP (₹mn)	₹2,60,376
52 Week H/L (₹)	3836.6 / 2042.5
NSE Code	JKCEMENT
BSE Code	532644

### Shareholding Pattern (%) Dec`21

Promoter	51.50
FII	17.72
DII	19.82
Public	10.96

### Why we like the company?

### Financials

Presence over multiple regions with market leadership (no 2 player in India) in high margin white cement business

Wall Putty capacity expansion provides growth visibility

Healthy balance sheet with strong past performance

Modernisation and expansion of existing facilities & power plants to improve EBITDA/ton

Entry into Central India to usher diversification

	(₹ mn)		
	FY21	FY20	FY19
Net Sales	66,061	58,016	48,525
EBITDA	15,387	12,134	8,345
PAT	7031	4834	2636
EPS (₹)	90.9	62.6	34.1
P/E (x)	36.1	52.5	96.0
EV/EBITDA (x)	18.4	23.3	33.3
ROE (%)	21.0	17.2	11.6
ROCE (%)	13.1	11.4	8.5
Net Debt/Equity	0.5	0.8	0.8

Source: Company Data, Way2Wealth Research

### Investment Rationale

- **Presence over multiple regions with dominant No. 2 player in high margin white cement business** – JK Cement has facilities in Rajasthan, Karnataka, Haryana etc. thus having a good presence in southern, northern and western markets. The Company is the second-largest white Cement manufacturer in India with a around 25% market share and 3rd largest globally. The white cement segment commands premium pricing (almost 2x than blended realizations) and EBITDA margin of ~25-27% compared to grey cement. White cement and allied products contributed ~1/3rd of consolidated revenues for company in FY21. As per the management, white cement to grow at 12-15% every year going ahead.
- **Putty capacity expansion provides growth visibility** – In FY21, company expanded its Wall Putty capacity in Katni, Rajasthan by 0.3MTPA, thereby increasing the overall Putty capacity to 1.2MTPA. White Cement and Putty are high-margin business and has been growing at over 10% CAGR in the past few years. We believe, expansion is timely and would help JKCE fully participate in market growth.
- **Healthy balance sheet with strong past performance boosts confidence** – Net debt/equity improved from 1.5x to 0.5x and Net debt to EBITDA from 3.5x to 1.2x over FY17-FY21 on account of strong cashflow generation and better operational metrics. However, Net debt is expected to peak at ₹27,500mn in FY22

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(peak net debt to EBITDA at 1.4x) as it is undergoing Greenfield capacity expansion. Thereafter, cash flows from the ramp up of operations in the newly commissioned capacities (new capacities commissioned in FY21 & FY22 to report higher utilization gradually) will lead to leverage decline. Also company's return ratios stand strong at +20% despite undergoing heavy capex yearly.

- **Upgrade and expansion of the existing kiln at Nimbahera to improve EBITDA/ton** – Company's plan of improving production capacity of Nimbahera facility by 20% and upgrading the kiln by changing the pre-heater, will help in improving margins of the company. Commercialization of upgraded Nimbahera facility is expected in Q3FY22 and improvement in power/fuel cost would by FY22 end.
- **Long-term expansion to usher diversification** – Company is predominantly a North India player with 77% of the total capacity (both grey and white cement) located in this region. With the greenfield capacity expansion in (Panna, MP) of 3-3.5MTPA (total outlay of ₹30,000m (likely by H2FY24)), the company will gain market share over the period of time, increase its capacity share and expand geographical reach.

## Key Risks

- Any delay in commissioning of new capacity may impact growth and return ratios
- Sharp rise in raw materials (pet coke prices) can impact company's financials.
- Repeated Covid -19 led lockdown to elongate the recovery cycle

## View

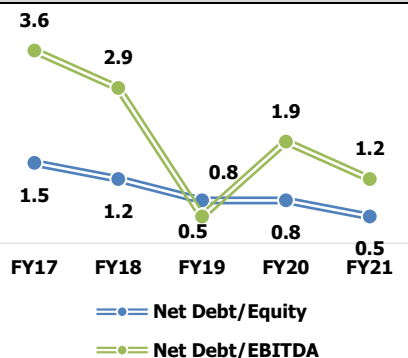
Company's market leadership position in white cement and wall putty, strong fundamentals - Revenue/EBITDA/PAT recorded CAGR growth of 7%/25.2%/22.2% over FY17-FY21, diversified product portfolio, pan India presence & strong brand patronage provides competitive edge over peers. Also healthy balance with Net debt to EBITDA improvement from 3.6x to 1.2x along with strong return ratios and FCF improvement to ₹8000mn boosts our confidence. Company's future plans of commissioning greenfield capacity in Central India, modernization and debottlenecking of facilities not only provides growth visibility but also could aid margin expansion. **At CMP of ₹3285, stock is trading at 36x P/E on FY21 EPS & EV/EBITDA of 18x which is justified given its healthy balance sheet, leadership position and focus on increasing share of premium products, hence we are positive on the stock and recommend investors to ACCUMULATE on Dips.**

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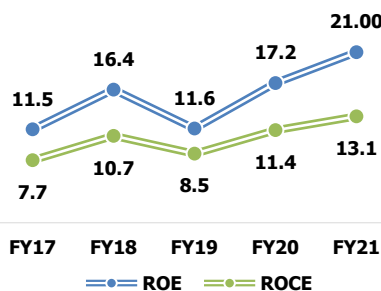
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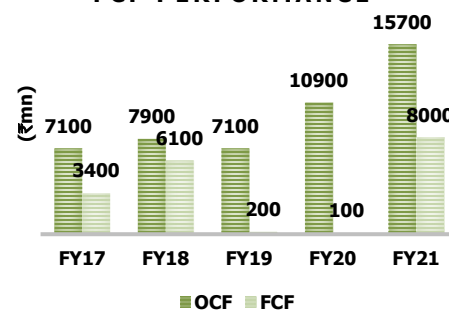
**Key Ratios**



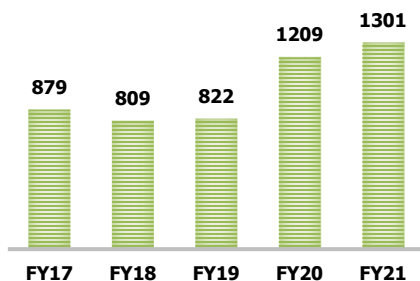
**RETURN RATIOS**



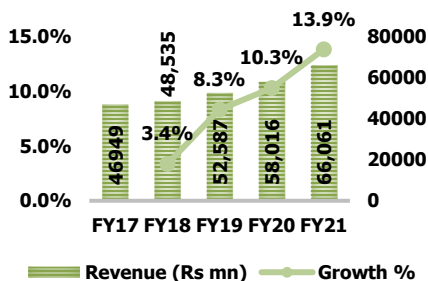
**FCF PERFORMANCE**



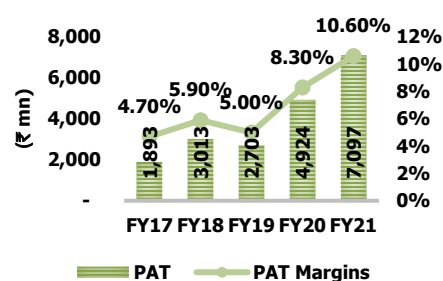
**BLENDED EBITDA/TON**



**TOPLINE PERFORMANCE**



**BOTTOMLINE PERFORMANCE**



Source: Company Data, Way2Wealth Research

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### Annual Financial Highlights

(₹ mn)

Particulars	FY17	FY18	FY19	FY20	FY21
<b>Net Sales</b>	<b>40,214</b>	<b>48,535</b>	<b>52,587</b>	<b>58,016</b>	<b>66,061</b>
Change (%)	7.3	20.7	8.3	10.3	13.9
<b>EBITDA</b>	<b>7,261</b>	<b>7,875</b>	<b>8,345</b>	<b>12,134</b>	<b>15,387</b>
<b>EBITDA Margin (%)</b>	<b>18.1%</b>	<b>16.2%</b>	<b>15.9%</b>	<b>20.9%</b>	<b>23.3%</b>
Depreciation	2,169	2,313	2,413	2,880	3,062
<b>EBIT</b>	<b>5,092</b>	<b>5,561</b>	<b>5,932</b>	<b>9,255</b>	<b>12,325</b>
<b>EBIT Margin (%)</b>	<b>12.7%</b>	<b>11.5%</b>	<b>11.3%</b>	<b>16.0%</b>	<b>18.7%</b>
Finance Cost	3,027	2,841	2,611	2,764	2,528
Other Income	984	1,269	804	853	1,130
PBT bef. EO Exp.	3,049	3,989	4,124	7,344	10,927
EO Expense / (Income)	193	157	0	0	0
PBT after EO Exp.	2,856	3,832	4,124	7,344	10,927
Tax	649	976	1,488	2,511	3,896
<b>Reported PAT</b>	<b>1,719</b>	<b>2,856</b>	<b>2,636</b>	<b>4,834</b>	<b>7,031</b>
<b>PAT adj. for EO items</b>	<b>1,835</b>	<b>2,973</b>	<b>2,636</b>	<b>4,834</b>	<b>7,031</b>
Less : Minority Interest	-57.7	-39.9	-67.1	-90.0	-66.2
<b>Net Profit</b>	<b>1,893</b>	<b>3,013</b>	<b>2,703</b>	<b>4,924</b>	<b>7,097</b>
<b>PAT Margin %</b>	<b>4.7%</b>	<b>5.9%</b>	<b>5.0%</b>	<b>8.3%</b>	<b>10.6%</b>
EPS (₹)	26.2	42.5	34.1	62.6	90.9

Source: Company Data, Way2Wealth Research

### Key Operational Metrics

Operational metrics	FY17	FY18	FY19	FY20	FY21
<b>Grey Cement</b>					
Installed Capacity (MMT)	10.5	10.5	10.5	14.7	14.7
Sales Volumes (MMT)	6.8	7.9	8.6	8.4	10.3
Capacity Utilization (%)	65	75	82	58	70
Realization (₹/ton)	3,645	3,906	4,001	4,527	4,495
<b>White Cement</b>					
Installed Capacity (MMT)	1.9	1.9	2.1	2.1	2.1
Sales Volumes (MMT)	1.4	1.5	1.6	1.8	1.7
Capacity Utilization (%)	75	81	78	85	79
Realization (₹/ton)	10,428	10,325	10,668	10,686	11,403
<b>Total</b>					
Sales Volumes (MMT)	8.2	9.4	10.2	10.2	11.9
Blended Realization (₹/ton)	4,813	4,916	5,072	5,603	5,449
Blended EBITDA (₹/ton)	880	807	817	1,186	1,320

Source: Company Data, Way2Wealth Research

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Name of the Security	JK Cement Ltd.
Name of the analyst	Yogita Desai
Analysts' ownership of any stock related to the information contained	NIL
Financial Interest	
Analyst :	No
Analyst's Relative : Yes / No	No
Analyst's Associate/Firm : Yes/No	No
Conflict of Interest	No
Receipt of Compensation	No
Way2Wealth ownership of any stock related to the information contained	NIL
Broking relationship with company covered	NIL
Investment Banking relationship with company covered	NIL

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