

25th Aug 2023

CMP – ₹3,142/-

View – Accumulate

Q1FY24 Performance

- JK Cement Limited (JKC) recorded a Total Income of ₹2,763Cr for Q1FY24, an increase of 22% YoY.
- The volume for the quarter was 4.63 mtpa, up 25% YoY. JKC's EBITDA/tonne was ₹882, down 19% YoY but up 18% sequentially.
- Total expenses for Q1FY24 were ₹2,599Cr, a 28%/-2% change YoY/QoQ.
- There was a decline in net consolidated profit of 29% YoY, a decrease from ₹161Cr in Q1FY23 to ₹113Cr in Q1FY24.
- Earnings per share in Q1FY24 also declined by 29% to 14.84 from 20.81 YoY.
- EBITDA margin contracted to 14.8% compared to 17.8% YoY.
- JKC recorded a 29% decline in profit at ₹113Cr as compared to ₹161Cr in Q1FY23 owing to higher interest and depreciation expenditures, which were up 67%/28% YoY.
- Fuel consumption cost (blended basis) stood at ₹2.2/kcal in Q1FY24 vs ₹2.5/kcal QoQ led by consumption of cheap domestic coal.
- The fuel mix for the quarter was 60% pet coke and 40% other fuel and AFR.

Important Statistics

| | |
|------------------------|-------------|
| MCAP (₹ Cr) | ~24,110 |
| 52 Week H/L (₹) | 3467 / 2425 |
| NSE Code | JKCEMENT |
| BSE Code | 532644 |

| Shareholding | Dec'22 | Mar'23 | Jun'23 |
|--------------|--------|--------|--------|
| Promoters | 45.8 | 45.8 | 45.8 |
| FII | 15.8 | 15.5 | 15.5 |
| DII | 21.8 | 22.4 | 23.1 |
| Public | 16.4 | 16.1 | 15.5 |

Management Concall Highlights

- **Volume** – Severe monsoon and floods in operational regions, as well as scheduled maintenance shutdown hampered demand in Q1FY24. Volume growth in grey and white cement was 29% and 1%, YoY respectively. Panna unit achieved 75% of its capacity in Q1FY24, and its EBITDA/t is par with the existing operations.
- **Capacity Expansion** – Management is optimistic that it will produce a 15% YoY volume growth in FY24. Work on the Ujjain grinding facility (1.5mtpa) is nearing completion, and JKC plans to have it operational by Q3FY24. UP (2 mtpa) is planned to be operational in Q2FY25, bringing total grey cement capacity to 23.5 mtpa by FY25. Orders for primary equipment for the Prayagraj grinding facility (2 mtpa) have been issued, and it is planned to be operational by the end of Q3FY25.
- **Trade Mix** – During Q1FY24, the trade and non-trade mix was 66%/34%. Volume growth in grey and white cement on YoY basis was 29% and 1%, respectively. The blended cement sale accounted for 68% of total sales, with the remainder being OPC.
- **Cement prices** – During Jul'23, there was a price increase in the region of ₹7-8/bag in north India. Prices in South India, on the other hand, have remained under pressure, while prices in Central India have stayed stable. After monsoon, the company expects prices to trend upward, although this relies on market conditions.
- **Premium Sales** – JKC has a 50% market share in the White Cement business in India. It aims to expand the percentage of premium offerings to 15% in FY24 and 20% over the long term. When compared to the pricing of the standard PPC brand, premium products cost ₹ 20–40 more per bag and produce an additional ₹ 100 in EBITDA per tonne.
- **Energy expense** – Over 60% of the fuel mix was Pet Coke, with the other 40% being imported coal, AFR, and renewable energy. Fuel shipments that have been

Key Metrics

| Particulars | (₹ Cr) | | |
|----------------|--------|-------|-------|
| | FY21 | FY22 | FY23 |
| Revenue (₹ cr) | 6,606 | 7,991 | 9,720 |
| PAT | 703 | 679 | 419 |
| OPM % | 24% | 19% | 14% |
| EPS (₹) | 92 | 89 | 55 |
| ROE (%) | 21 | 17 | 10 |
| ROCE (%) | 13 | 11 | 8 |
| NSR (₹/MT) | 5,485 | 5,718 | 6,013 |
| EV/MT (₹ cr) | 1340 | 1370 | 1090 |
| EV/EBITDA (x) | 17 | 18 | 21 |

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ordered will arrive in Q2FY24 and will be utilized in Q3FY24. The WHRS at Panna is now operational which would result in annual fuel savings of ₹50Cr. By the end of FY25, the firm intends to have increased its overall green power capacity to 100 MW.

- **Freight Cost** – The Rail:Road ratio in comparison to Q4FY23 at 16:84, was 14:86 in Q1FY24. Freight costs per tonne remained flattish sequentially to ₹1263/tonne. Lead distance further reduced to 426km in Q1FY24 from 438kms consecutively, with a fall in lead distance at the Central India facility being the main factor.
- **Debt & Interest** – Net debt grew by ₹118cr to ₹3031cr because of extra borrowings for Ujjain and other expenditures.
- **Capex plan** – Including capex in the paint business, the company spent ₹1,600Cr in FY23. The estimated capex for FY24 and FY25 is ₹ 1400 crs and ₹ 800 crs, respectively.

Key Risks

- Inflation in input costs mostly from Power, Freight and Fuel
- Significant decline in cement pricing

View

The market for cement is anticipated to be strong, driven by rising infrastructure spending and a demand for affordable housing and real estate in the Central region of India and is expected to grow at a CAGR of 7-8%.

JKC's Q1FY24 performance was impressive, with the company achieving a 170bps QoQ margin gain (EBITDA was 15%). There is a potential for further margin expansion due to the near-term benefits of incentives from the new Panna unit (in Madhya Pradesh); and savings from the newly commissioned 22MW WHRS plant at Panna and the impending 16MW in Muddapur (Karnataka).

Given the strong demand going forward, the company anticipates a 15% volume growth in FY24 and higher margins going forward, we recommend investors to continue to **Accumulate** on dips, **the company is currently quoting at 12x FY25E EV/EBITDA.**

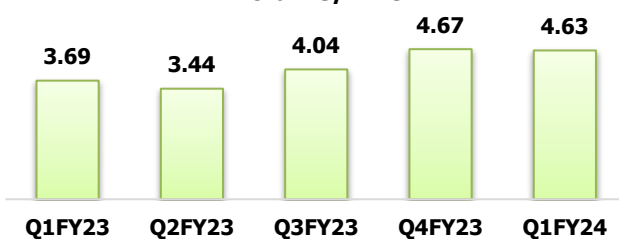
25th Aug 2023

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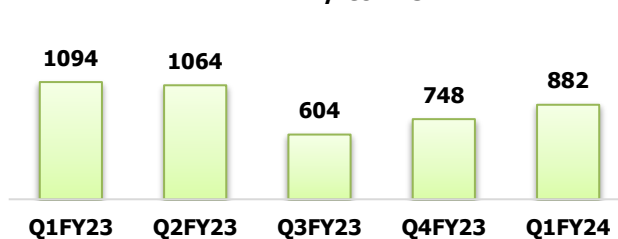
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Operational Highlights

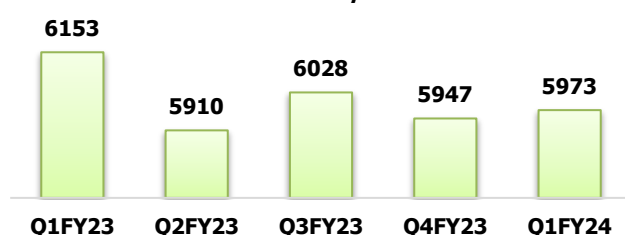
Volume / mnt



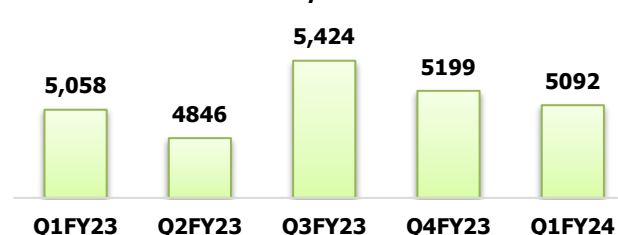
EBITDA / tonne



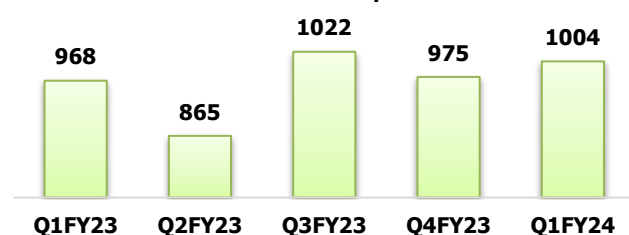
Realisation / tonne



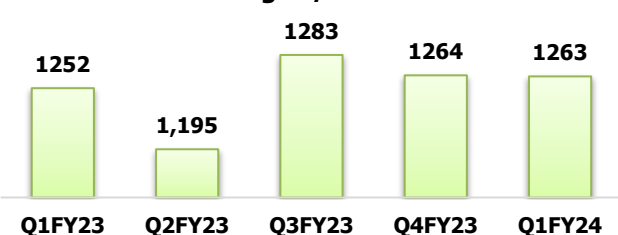
Cost / tonne



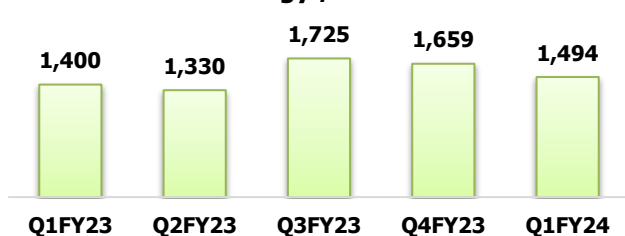
Raw Materials / tonne



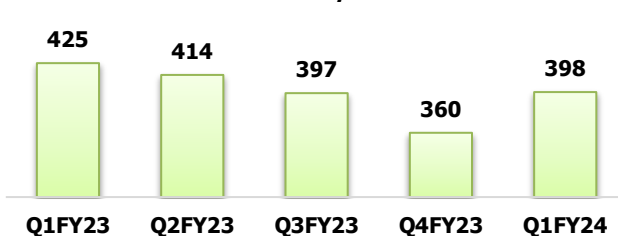
Freight / tonne



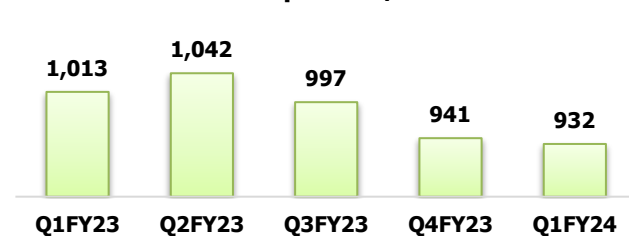
Energy / tonne



Staff Cost / tonne



Other Expenses / tonne



Source: Company, Way2wealth Research

25th Aug 2023

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Key Operational Metrics

| (₹ Cr) | Q1FY23 | Q2FY23 | Q3FY23 | Q4FY23 | Q1FY24 | YoY | QoQ |
|----------------------|--------|--------|--------|--------|--------|------|------|
| Volume/mnt | 3.69 | 3.44 | 4.04 | 4.67 | 4.63 | 25% | -1% |
| Realisation/tonne | 6,153 | 5,910 | 6,028 | 5,947 | 5,973 | -3% | 0% |
| Cost/tonne | 5,058 | 4,846 | 5,424 | 5,199 | 5,092 | 1% | -2% |
| Raw materials /tonne | 968 | 865 | 1,022 | 975 | 1,004 | 4% | 3% |
| Staff cost/tonne | 425 | 414 | 397 | 360 | 398 | -6% | 11% |
| Energy cost/tonne | 1,400 | 1,330 | 1,725 | 1,659 | 1,494 | 7% | -10% |
| Freight/tonne | 1,252 | 1,195 | 1,283 | 1,264 | 1,263 | 1% | 0% |
| Other Expenses/tonne | 1,013 | 1,042 | 997 | 941 | 932 | -8% | -1% |
| EBITDA/tonne | 1,094 | 1064 | 604 | 748 | 882 | -19% | 18% |

Source: Company, Way2wealth Research

Product Mix

| | (₹ Cr) | | | | |
|-----------------|--------|--------|-----|--------|------|
| | Q1FY24 | Q4FY23 | QoQ | Q1FY23 | YoY |
| Grey Net Sales | 2039 | 2072 | -2% | 1640 | 24% |
| White Net Sales | 641 | 654 | -2% | 585 | 10% |
| Total Net Sales | 2680 | 2726 | -2% | 2225 | 20% |
| Combined EBITDA | 408 | 350 | 17% | 406 | 0.5% |

Source: Company, Way2wealth Research

Debt profile

| | (₹ Cr) | | |
|-----------------|--------|------|-----|
| | FY24 * | FY23 | YoY |
| Gross Debt | 4503 | 4534 | -1% |
| Cash | 1472 | 1621 | -9% |
| Net Debt | 3031 | 2913 | 4% |
| Net Debt/EBITDA | 2.3 | 2.2 | 5% |
| Equity | 4767 | 4640 | 3% |
| Net Debt/Equity | 0.64 | 0.63 | 2% |

*As on 30th June, 2023

25th Aug 2023

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Quarterly Financials

(₹ Cr)

| Particulars | Q1FY24 | Q1FY23 | YoY | Q4FY23 | QoQ | FY23 | FY22 | YoY |
|---|--------|--------|------|--------|-------|-------|------|------|
| Revenue from operations | 2763 | 2272 | 22% | 2778 | -1% | 9720 | 7990 | 22% |
| Other income | 32 | 15 | 112% | 38 | -17% | 87 | 142 | -38% |
| Total Income | 2794 | 2287 | 22% | 2816 | -1% | 9808 | 8134 | 21% |
| Expenses | | | | | | | | |
| Cost of materials consumed | 440 | 334 | 32% | 418 | 5% | 1492 | 1205 | 24% |
| Purchases of stock in trade | 40 | 30 | 34% | 34 | 17% | 127 | 105 | 21% |
| Changes in inventories | -15 | -7 | 130% | 3 | -584% | -25 | -23 | 10% |
| Employee benefits expenses | 184 | 157 | 17% | 168 | 9% | 638 | 559 | 14% |
| Finance costs | 109 | 65 | 67% | 101 | 8% | 312 | 270 | 16% |
| Depreciation and amortisation expense | 135 | 106 | 28% | 129 | 5% | 458 | 342 | 34% |
| Power and fuel | 691 | 516 | 34% | 775 | -11% | 2563 | 1652 | 55% |
| Freight and forwarding expenses | 584 | 462 | 26% | 501 | 17% | 2033 | 1653 | 23% |
| Other expenses | 431 | 374 | 15% | 439 | -2% | 1579 | 1356 | 16% |
| Total Expenses | 2599 | 2037 | 28% | 2658 | -2% | 9176 | 7121 | 29% |
| Profit before tax | 181 | 250 | -28% | 158 | 14% | 631 | 1013 | -38% |
| Current tax | 36 | 52 | -30% | 41 | -11% | 142 | 190 | -25% |
| Deferred tax | 27 | 38 | -28% | 7 | 264% | 70 | 157 | -56% |
| Earlier years tax adjustments | 4 | - | | | | 0 | 14 | - |
| Total tax expense | 67 | 90 | -25% | 48 | 40% | 212 | 334 | -36% |
| Net Profit after tax for the period | 113 | 161 | -29% | 110 | 3% | 419 | 679 | -38% |
| Paid-up equity share capital | 77 | 77 | 0% | 77 | 0% | 77 | 77 | 0% |
| Other Equity (Excluding Revaluation Reserves) | . | - | - | - | - | 4609 | 4247 | 9% |
| Basic and Diluted Earnings Per Share | 14.84 | 20.81 | -29% | 14.53 | | 55.17 | 87.9 | -37% |

Source: Company, Way2wealth Research

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Disclosure of Interest Statement J K Cement Ltd. as on August 25th, 2023

| | |
|--|-------------------|
| Name of the Security | J K Cement Ltd. |
| Name of the analyst | Dhananjay Kansara |
| 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 |
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| Investment Banking relationship with company covered | NIL |

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