

04 September 2024

India | Equity Research | Company Update

JK Cement

Cement

Dressed to dine with kings

At our recently hosted 'JK Cement Investors Meet', the promoter-duo Dr Raghavpat and Mr Madhavkrishna Singhanian not only exuded confidence towards meeting the 30mtpa capacity target by FY26 (24.3mtpa currently; thereby cementing itself among the top-5 cement players in India) but also exuberated resolve to double current capacity by FY30. Among other locations identified towards the stated objective, JKCE appears keen to pursue greenfield expansion at the virgin limestone cluster of Jaisalmer in Rajasthan, albeit contingent on the lucrativeness of government incentives. JKCE's attainments of timely project execution, swift ramp-up of new plants and demonstrated cost savings qualify it to be a potential compounding growth story. We maintain **ADD** with unchanged target price of INR 4,818.

Aiming 50mtpa by 2030; eyeing top-5 slot

JKCE is steadfast in its ambition to be among the top-5 players in India, and has hence embarked on a journey to double its current capacity (of 24.3mtpa) by 2030. While a 6mtpa expansion (linked to Panna line-2) is poised to see completion by FY26, the company has identified sites where it can potentially scale capacity to 50mtpa. These locations and their capacity potential include Jaisalmer (Rajasthan, north India) 6mtpa; Panna line-3 (central India) 6mtpa; Muddapur (Karnataka, south India) 5mtpa and Odisha (east India) 3mtpa (order of execution may vary). JKCE may pursue greenfield expansion in Jaisalmer, should the state government sweeten the incentive package to attract investments in this virgin limestone cluster. The expansion in Odisha too is subject to state approval for a long-term mining lease/arrangement.

Efficiency focus, compounding growth story – intact

All along, JKCE's commitment towards efficiency enhancement has remained undeterred. From just 23% in FY20, its share of green power has now surged to 57% – plans to scale it further to 67% by FY26. JKCE is among the few cement players in India that is backed by a WHR power plant across all clinker lines. Moreso, JKCE is also geared up to prune cost by INR 150–200/t over the next two years. Save for its expensive valuation, JKCE's timely project execution, swift plants ramp-up and proven cost savings are salient features favouring its compelling compounding growth story. We continue to value JKCE at 16x FY26E EV/EBITDA; retain **ADD** and TP of INR 4,818.

Financial Summary

Y/E March (INR mn)	FY23A	FY24P	FY25E	FY26E
Net Revenue	97,202	1,15,559	1,17,424	1,30,269
EBITDA	13,143	20,597	20,057	24,938
EBITDA (%)	13.5	17.8	17.1	19.1
Net Profit	4,163	7,991	7,425	9,726
EPS (INR)	53.9	103.4	96.1	125.9
EPS % Chg YoY	(38.7)	91.9	(7.1)	31.0
P/E (x)	86.7	45.2	48.6	37.1
EV/EBITDA (x)	30.0	19.1	20.0	16.3
RoCE (%) (post-tax)	6.4	10.0	9.2	11.1
RoE (%)	9.2	16.0	13.2	15.2

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Market Data

Market Cap (INR)	361bn
Market Cap (USD)	4,296mn
Bloomberg Code	JKCE IN
Reuters Code	JKCE.BO
52-week Range (INR)	4,694 /2,996
Free Float (%)	54.0
ADTV-3M (mn) (USD)	8.3

Price Performance (%)	3m	6m	12m
Absolute	21.1	4.7	40.6
Relative to Sensex	10.4	(7.0)	15.4

Previous Reports

23-07-2024: [Q1FY25 results review](#)

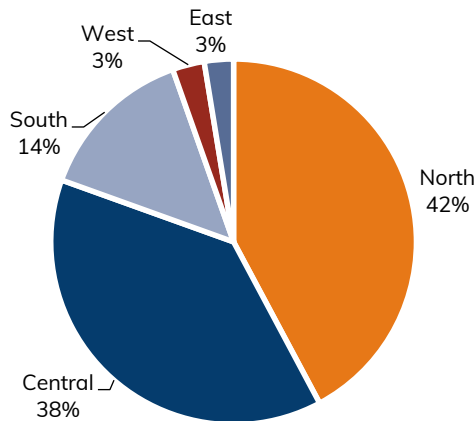
15-05-2024: [Q4FY24 results review](#)

Key highlights of the investors meet are -

Grey cement – aspiration to double capacity by 2030

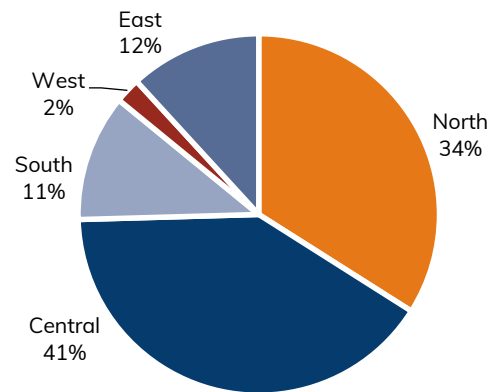
The ongoing 6mtpa expansion (1mtpa brownfield expansion each at Panna, MP, Hamirpur, UP and Prayagraj, UP) along with a greenfield 3mtpa grinding unit in Bihar is on track to see completion by H2FY26. This shall elevate JKCE's capacity to 30.3mtpa and cement its place as one of the top-5 cement players in India.

Exhibit 1: Regional capacity mix – Q1FY25



Source: I-Sec research, Company data

Exhibit 2: Regional capacity mix – FY26E



Source: I-Sec research, Company data

Exhibit 3: Top-5 cement players in India – Q1FY25

India grey capacity	(mtpa)
UltraTech Cement	149.5
Ambuja Cement [^]	89.0
Shree Cement	56.4
Dalmia Bharat	46.6
Nuvoco Vistas	25.0

Source: I-Sec research, Company data, [^] Consolidated

To hold its ground as a market leader, JKCE has already embarked on its next growth-phase journey to double existing capacity by 2030. As such, the company has identified potential sites to scale up capacity to 50mtpa by 2030.

Exhibit 4: Location-wise details (not necessarily to be pursued in the same order)

Location	Region	Capacity (mtpa)	Type
Jaisalmer, Rajasthan	North	6.0	Greenfield
Panna, Madhya Pradesh	Central	6.0	Brownfield
Muddapur, Karnataka	South	5.0	Brownfield
Odisha (Toshali Cement)	East	3.0	Brownfield
Total		20.0	

Source: I-Sec research, Company data

Adequate land and limestone reserves to pursue expansion

JKCE's confidence to pursue '50mtpa by 2030' stems from the fact that it not only has adequate limestone reserves across all the above-mentioned locations, but also has procured bulk of the land required for the stated expansions.

Exhibit 5: Location wise limestone reserves of ~1.6bn tonnes

Location	Reserves (mt)	Residual life (yrs.)
Jaisalmer, Rajasthan	>100	>20
Panna, Madhya Pradesh	>850	>40
Nimabahera, Mangrol (Rajasthan) + Muddapur (Karnataka)	>650	>35

Source: I-Sec research, Company data

In year 2030, only three mines in north India are likely to come up for re-auction (as per the rules on legacy mines notified under MMDR Act, 2015) which, as per JKCE, has very limited reserves left. While, mines in Muddapur may also come-up for re-auction, JKCE has already procured mines in the adjoining area (under auctions) to counter the impact of the same.

Jaisalmer and Odisha projects needs green flag from respective state governments

Of the proposed 20mtpa potential expansion (post FY26), 11mtpa is brownfield in nature – being 6mtpa at Panna and 5mtpa at Muddapur; hence, easy to pursue.

Of the balance 9mtpa, 6mtpa is a greenfield expansion proposed at Jaisalmer in Rajasthan (north India). Having acquired land and adequate limestone reserves, JKCE appears keen to pursue expansion at this virgin limestone cluster in order to protect and gain market share in north India. However, the final decision hinges on lucrativeness of the incentives being offered by the state governments to compensate for the potential increase in lead distance.

Similarly, the expansion in Odisha too rests on the state government signing the mining lease or assuring long term-supply of limestone for the proposed 5mtpa expansion. It may be recalled that JKCE has recently acquired a small cement entity named Toshali Cement in Odisha (for INR 1.57bn with cement/clinker capacity of 0.64/0.33mtpa).

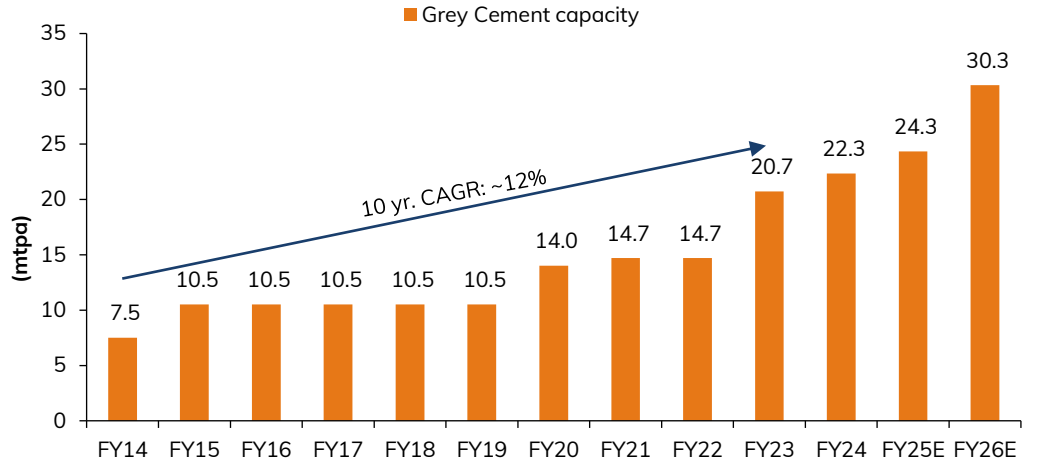
Focus on organic expansion over inorganic route

Amidst the ongoing buzz of M&As and rising industry consolidation, JKCE appears quaint in preferring organic expansion given it proves to be cost effective.

While most of the recent industry M&A transactions have fructified in the range of ~USD 80–100/t; JKCE believes (having demonstrated w.r.t. Panna expansion) that organic expansion can be done at ~USD 60/t.

For a greenfield project, while the initial capex cost may appear high, the subsequent expansion can be done at a materially lower cost.

Exhibit 6: Consistent capacity creation (~12% CAGR over past 10 years)



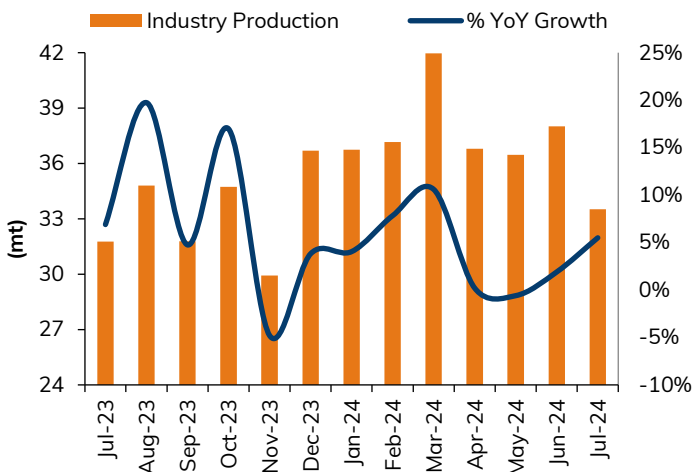
Source: I-Sec research, Company data

Industry outlook – prices have bottomed out

JKCE is convinced on the positive industry demand outlook over the medium-to-long term – which is likely the crux of the rationale to double capacity by 2030. While demand has remained soft (so far) in H1FY25 due to elections and heavy onslaught of monsoons, JKCE expects a handsome recovery in H2FY25.

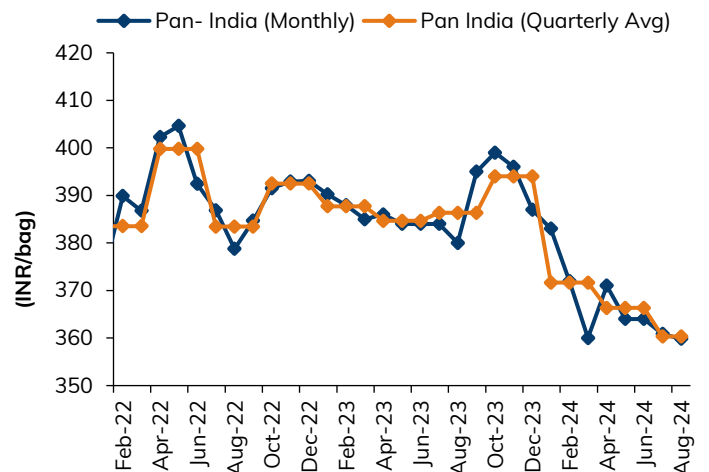
Having seen a sustained decline since almost a year, JKCE feels cement prices have largely troughed. The company is hopeful of a healthy rebound in prices in H2FY25 complemented by expected demand revival.

Exhibit 7: Monthly volume run-rate



Source: DIPP, I-Sec research

Exhibit 8: Pan-India monthly pricing trend

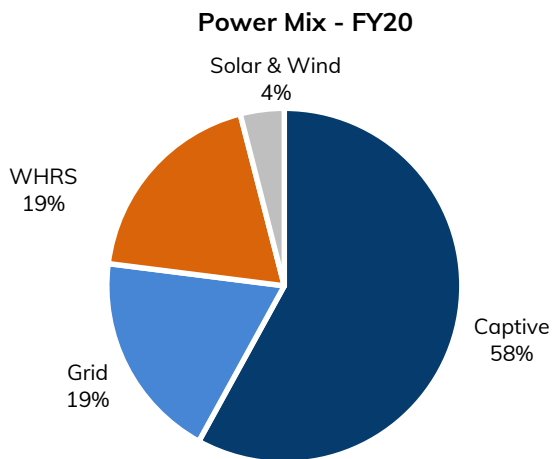


Source: I-Sec research, Company data

Efficiency focus intact; committed to prune cost by INR 150-200/t over FY25–26

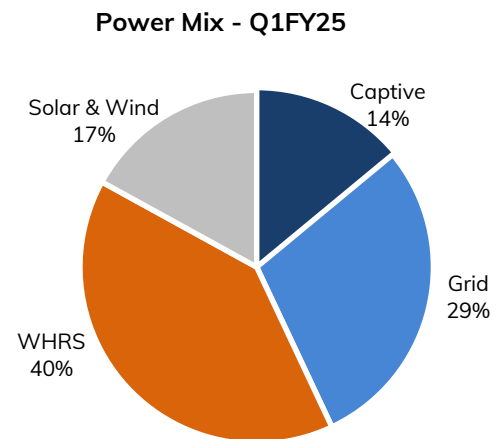
JKCE's focus on efficiency enhancement is exemplary. From just ~23% in FY20, its share of green power has now surged to 57%. While the target is to scale it further to 75% in 2030, in the near-term, JKCE endeavours to see the figure at 67% by FY26. The company is among the few cement players in India that is backed by a WHR power plant across all clinker lines.

Exhibit 9: Green power share jumped from 23% in FY20...



Source: I-Sec research, Company data

Exhibit 10: ...to 57% in Q1FY25



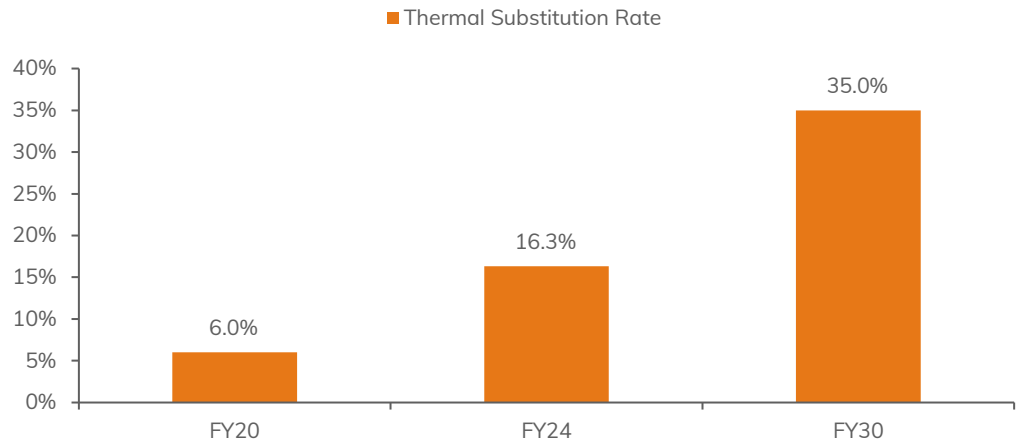
Source: I-Sec research, Company data

Exhibit 11: Proposed green power capacity addition

Location	(MW)
Nimbahera	70.0
Mangrol	70.0
Muddapur	11.6
Gotan White	12.0
Balasinor	4.6
Hamirpur	9.0
Prayagraj	13.0
Total	190.2

Source: I-Sec research, Company data

Exhibit 12: Targets further improvement in TSR levels



Source: I-Sec research, Company data

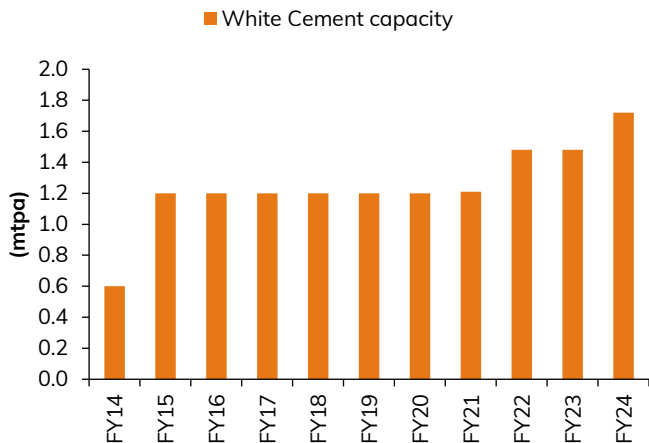
Further, JKCE has now geared up to prune costs further by ~INR 150–200/t over the next two years. While a precise break-up of the cost saving is unavailable, these are slated to be channelled through the following initiatives –

- Increase in green power mix by 10%
- Increase in TSR by 10% i.e., replacement of fossil fuel with AFR
- Reduction in lead distance by 15kms
- Other small initiatives.

White cement – putty segment continues to face intense competition

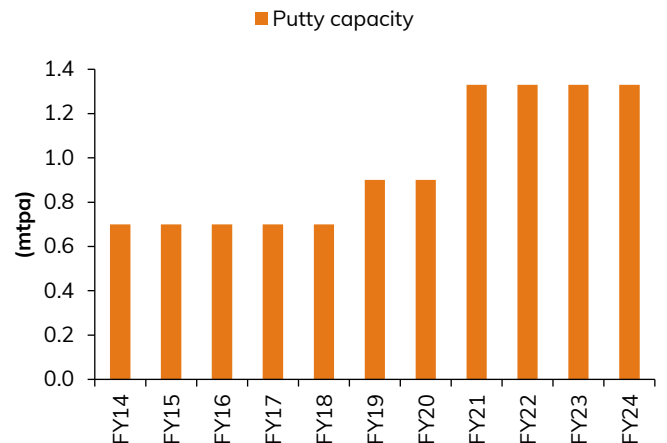
White cement and wall putty remain a core business for JKCE – has seen steady capacity growth of ~9% CAGR over FY14-24. As such, at 23%, the company commands a lion’s share of the wall putty market in India.

Exhibit 13: White Cement grew ~11% CAGR over past 10 years...



Source: I-Sec research, Company data

Exhibit 14: ...similarly, wall putty capacity addition was at ~7% CAGR



Source: I-Sec research, Company data

However, the wall putty business continues to face intense competition from paint manufacturers. As a result, margins in this segment are now broadly at par with those of the grey cement business. With no major capital commitments, JKCE views the white segment as a high free-cash-flow generating business despite margin pressures.

Paints business – calibrated commitment

To counter competition from paint manufacturers in the wall putty business, JKCE forayed into the paints business with the acquisition of Acro Paints in January 2023.

Having invested INR 4bn till date, JKCE remains committed to its spending outlay of not more than INR 6bn towards this business segment.

JKCE is targeting revenues of INR 2.5–3bn in FY25 and ~INR 5bn in FY26. It aims to break-even in the paints segment within FY26–27.

Sights significant growth in VAPs; targets INR 20bn sales by 2030

JKCE is entering a new category of business namely construction chemicals aimed to complement its existing product offerings such as gypsum plaster, tiles adhesive and water proofing solutions.

Including paints, JKCE has set a target of INR 20bn of revenues from this value-added-product segment by 2030.

Other highlights

- JKCE plans to spend INR 38bn towards capex with ~INR 19bn each in FY25 and FY26.
- While share of premium products stood 13% (of trade sales) in Q1FY25, JKCE intends to scale this to 15% by FY26 and further up to 25% by FY30.
- JKCE will endeavour to maintain a net debt to EBITDA ratio of 1.5-2x.
- Company's engagement with consultant BCG will continue till such time they get pay-back/benefits equivalent to the annual fees charged towards the same.

Outlook and valuation

Our conviction remains intact on JKCE being a top quartile mid-cap player in the cement space is rooted in its: 1) steady capex offering sustained volume growth visibility; 2) proven track record of timely project execution, faster ramp-up of new plants and demonstrated cost savings; 3) scope of ~INR 150-200/t cost reduction (as per management guidance); 4) reasonably strong balance sheet with net debt/EBITDA in the 1.5x–2x range (despite capex); and 5) commendable RoE of 15–16%.

We continue to value JKCE at 16x FY26E EV/EBITDA (at par with industry leader UltraTech Cement) and also value its paints segment at 3x FY26E price/sales. With sector headwinds (of weak cement prices amidst elevated competitive intensity) leaving limited scope to revise up our valuation multiple, we maintain **ADD** on the stock with an unchanged TP of INR 4,818.

Exhibit 15: Valuations based on 16x Mar'26E EV/E

Particulars	FY26E
Target EV/ EBITDA multiple (x)	16
Target EV (INR mn)	3,99,003
Net debt / (cash) (INR mn)	41,724
Value of the Paints business @3x FY26E Price/Sales	15,000
Target value (INR mn)	3,72,279
No. of shares (mn)	77.3
Target price per share (INR)	4,818

Source: I-Sec research, Company data

Risk: Sharp drop in cement prices.

Exhibit 16: Shareholding pattern

%	Dec'23	Mar'24	Jun'24
Promoters	45.7	45.7	45.7
Institutional investors	39.3	39.5	39.8
MFs and others	22.6	22.0	20.9
FIs/Banks	0.1	0.2	0.0
Insurance	1.4	1.4	1.2
FIIIs	15.3	15.9	17.7
Others	15.0	14.8	14.5

Source: Bloomberg

Exhibit 17: Price chart



Source: Bloomberg

Financial Summary (Consolidated)

Exhibit 18: Profit & Loss

(INR mn, year ending March)

	FY23A	FY24P	FY25E	FY26E
Net Sales	97,202	1,15,559	1,17,424	1,30,269
Operating Expenses	68,131	76,615	79,103	86,068
EBITDA	13,143	20,597	20,057	24,938
EBITDA Margin (%)	13.5	17.8	17.1	19.1
Depreciation & Amortization	4,619	5,653	5,981	6,500
EBIT	8,524	14,945	14,076	18,438
Interest expenditure	3,122	4,531	4,580	4,310
Other Non-operating Income	874	1,451	1,110	389
Recurring PBT	6,276	11,809	10,607	14,517
Profit / (Loss) from Associates	-	-	-	-
Less: Taxes	2,113	3,855	3,182	4,790
PAT	4,163	7,954	7,425	9,726
Less: Minority Interest	-	-	-	-
Extraordinaries (Net)	-	(37)	-	-
Net Income (Reported)	4,163	7,954	7,425	9,726
Net Income (Adjusted)	4,163	7,991	7,425	9,726

Source Company data, I-Sec research

Exhibit 19: Balance sheet

(INR mn, year ending March)

	FY23A	FY24P	FY25E	FY26E
Total Current Assets	40,885	44,598	32,222	26,931
of which cash & cash eqv.	16,209	20,109	7,452	845
Total Current Liabilities & Provisions	20,527	21,739	22,116	22,758
Net Current Assets	20,358	22,859	10,106	4,173
Investments	215	215	215	215
Net Fixed Assets	84,456	93,803	97,322	1,17,822
ROU Assets	-	-	-	-
Capital Work-in-Progress	7,295	4,295	16,795	7,795
Total Intangible Assets	-	-	-	-
Other assets	-	-	-	-
Deferred Tax assets	-	-	-	-
Total Assets	1,12,324	1,21,173	1,24,438	1,30,005
Liabilities				
Borrowings	49,951	52,391	49,391	46,391
Deferred Tax Liability	15,949	15,949	15,949	15,949
provisions	-	-	-	-
other Liabilities	-	-	-	-
Equity Share Capital	773	773	773	773
Reserves & Surplus	46,095	52,504	58,769	67,336
Total Net Worth	46,868	53,276	59,542	68,109
Minority Interest	(444)	(444)	(444)	(444)
Total Liabilities	1,12,324	1,21,173	1,24,438	1,30,005

Source Company data, I-Sec research

Exhibit 20: Cashflow statement

(INR mn, year ending March)

	FY23A	FY24P	FY25E	FY26E
Operating Cashflow	13,129	17,462	16,588	21,016
Working Capital Changes	642	(2,457)	(3,085)	(5,465)
Capital Commitments	(18,697)	(12,000)	(22,000)	(18,000)
Free Cashflow	(4,926)	3,006	(8,497)	(2,448)
Other investing cashflow	(1,451)	708	-	-
Cashflow from Investing Activities	(20,148)	(11,292)	(22,000)	(18,000)
Issue of Share Capital	-	-	-	-
Interest Cost	-	-	-	-
Inc (Dec) in Borrowings	-	-	-	-
Dividend paid	(1,159)	(1,545)	(1,159)	(1,159)
Others	8,572	2,440	(3,000)	(3,000)
Cash flow from Financing Activities	7,413	895	(4,159)	(4,159)
Chg. in Cash & Bank balance	1,036	4,608	(12,656)	(6,607)
Closing cash & balance	12,349	20,109	7,452	845

Source Company data, I-Sec research

Exhibit 21: Key ratios

(Year ending March)

	FY23A	FY24P	FY25E	FY26E
Per Share Data (INR)				
Reported EPS	53.9	103.4	96.1	125.9
Adjusted EPS (Diluted)	53.9	103.4	96.1	125.9
Cash EPS	113.7	176.6	173.5	210.0
Dividend per share (DPS)	15.0	20.0	15.0	15.0
Book Value per share (BV)	606.6	689.5	770.6	881.5
Dividend Payout (%)	27.8	19.3	15.6	11.9
Growth (%)				
Net Sales	21.6	18.9	1.6	10.9
EBITDA	(11.3)	56.7	(2.6)	24.3
EPS (INR)	(38.7)	91.9	(7.1)	31.0
Valuation Ratios (x)				
P/E	86.7	45.2	48.6	37.1
P/CEPS	41.1	26.4	26.9	22.2
P/BV	7.7	6.8	6.1	5.3
EV / EBITDA	30.0	19.1	20.0	16.3
EV / te (USD)	230.0	210.3	200.0	161.8
Dividend Yield (%)	0.3	0.4	0.3	0.3
Operating Ratios				
Gross Profit Margins (%)	83.6	84.1	84.4	85.2
EBITDA Margins (%)	13.5	17.8	17.1	19.1
Effective Tax Rate (%)	33.7	32.6	30.0	33.0
Net Profit Margins (%)	4.3	6.9	6.3	7.5
NWC / Total Assets (%)	18.1	18.9	8.1	3.2
Net Debt / Equity (x)	0.7	0.6	0.7	0.7
Net Debt / EBITDA (x)	2.6	1.6	2.1	1.8
Profitability Ratios				
RoCE (%) (Post Tax)	6.4	10.0	9.2	11.1
RoE (%)	9.2	16.0	13.2	15.2
RoC (%)	8.4	13.4	11.4	11.8
Fixed Asset Turnover (x)	1.3	1.3	1.2	1.2
Inventory Turnover Days	48	48	45	46
Receivables Days	20	19	18	18
Payables Days	40	38	37	38

Source Company data, I-Sec research

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