

## JK Cement Ltd.

January 28, 2025

CMP 4,777 | Target Price: INR 5,532 | Potential Upside: 15.8%

BUY

Change in Estimates	✓
Change in Target Price	✓
Change in Recommendation	✗

<b>Company Info</b>	
BB Code	JKCE IN EQUITY
Face Value (INR)	10.0
52 W High/Low (INR)	4,912/3,639
Mkt Cap (Bn)	INR 369 / \$4.3
Shares o/s (Mn)	77.3
3M Avg. Daily Volume	1,03,073

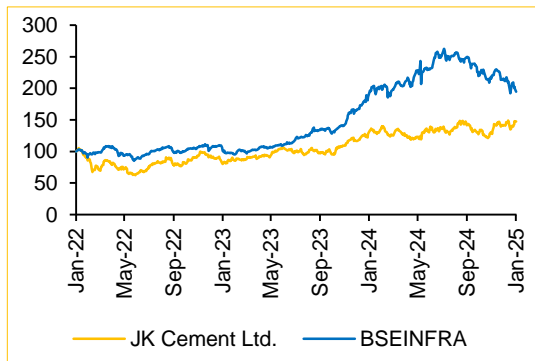
<b>Change in CEBPL Estimates</b>						
	FY26E			FY27E		
<b>INR Bn</b>	<b>New</b>	<b>Old</b>	<b>Dev. (%)</b>	<b>New</b>	<b>Old</b>	<b>Dev. (%)</b>
Revenue	123.9	126.3	(1.9)	135.1	138.3	(2.4)
EBITDA	23.9	23.7	1.0	29.2	27.9	4.7
EBITDAM %	19.3	18.7	59.8bps	21.6	20.2	140bps
PAT	10.1	10.0	1.0	13.4	12.9	4.3
EPS	130.9	130.1	0.6	174.0	167.4	3.9

<b>Actual vs Consensus</b>			
<b>INR Bn</b>	<b>Q3FY25A</b>	<b>Consensus Est.</b>	<b>Dev. %</b>
Revenue	29.3	28.6	2.4
EBITDA	4.9	4.6	6.7
EBITDAM %	16.8	16.1	69bps
PAT	1.9	1.7	14.3

<b>Key Financials</b>					
<b>INR Bn</b>	<b>FY23</b>	<b>FY24</b>	<b>FY25E</b>	<b>FY26E</b>	<b>FY27E</b>
Revenue	97.2	115.6	114.7	123.9	135.1
YoY (%)	21.6	18.9	(0.7)	8.0	9.1
EBITDA	13.1	20.6	19.9	23.9	29.2
EBITDAM %	13.5	17.8	17.3	19.3	21.6
Adj PAT	6.9	4.2	8.0	7.3	10.1
EPS	54.8	103.8	94.5	130.9	174.0
RoE %	9.1	15.1	12.1	14.3	16.0
ROCE %	9.4	14.6	11.8	13.6	15.8
PE(x)	87.1	46.0	50.5	36.5	27.4
EV/EBITDA	30.8	20.0	21.0	17.5	14.2

<b>Shareholding Pattern (%)</b>			
	<b>Dec-24</b>	<b>Sep-24</b>	<b>Jun-24</b>
Promoters	45.68	45.68	45.70
Fills	16.88	17.55	17.71
DlIs	23.70	22.44	22.06
Public	13.74	14.33	14.53

<b>Relative Performance (%)</b>			
<b>YTD</b>	<b>3Y</b>	<b>2Y</b>	<b>1Y</b>
BSE Infra	94.7	92.9	3.8
JK Cement Ltd.	47.6	84.7	14.6



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## Surpassed street expectations on all front

JKCE announced its Q3FY25 results yesterday, reporting a flattish revenue on YoY.

- Q3FY25 consolidated revenues at INR29,303 Mn, (vs CEBPL est. INR28,890 Mn), was down 0.2% YoY and up 14.5% QoQ. Total volume for Q3 stood at 4.9 Mnt, (vs CEBPL est. 4.9 Mnt) up 4.7% YoY and 12.6% QoQ.
- Consolidated EBITDA for Q3FY25 was reported at INR4,921 Mn, (vs CEBPL est. INR4,628 Mn) was down 21.3% YoY and up 73.3% QoQ. EBITDA/t for Q3 came at INR1,000/t, was down 24.8% YoY and up 53.9% QoQ. EBITDA Margins for the quarter was 16.8% (vs CEBPL est. 16%), down 450bps YoY and up 570bps QoQ.
- PAT for Q3FY25 reported at INR1,896 Mn, (vs CEBPL est. INR1,610 Mn) was down 33.2% YoY and up 50.7% QoQ. EPS for Q3FY25 is INR24.6.

## JKCE targets central market with aggressive expansion and premium push:

JKCE is sharpening its focus on expanding in the central market, driven by improving cement demand and realizations in the region. With a growing presence in this key market, the company aims to boost the share of premium products from 16% to 20% in the coming months. The recent capacity expansion at the Panna plant, doubling from 3.3 MTPA to 6.6 MTPA, strengthens its ability to cater the market of UP, MP and Rajasthan. We expect JKCE achieving a volume of 21.6 MTPA in FY26, supported by robust regional demand and its aggressive expansion strategy.

**Unlocking INR 150-200/t cost savings over the next 2 years:** The management has reaffirmed its commitment to cost optimization, setting a target to reduce costs by INR 50/t by FY26. The company plans to increase the share of green power from 51% in FY24 to 60% by FY26, significantly lowering energy costs. Additionally, a focused effort to reduce the lead distance by ~10-15 km is expected to contribute savings of ~INR 40-45/t. These measures are part of a broader cost-reduction framework aimed at enhancing overall profitability. As a result, we expect the company will achieve an EBITDA/t of INR 1,283/t by the end of FY27, reinforcing its competitive edge in the market.

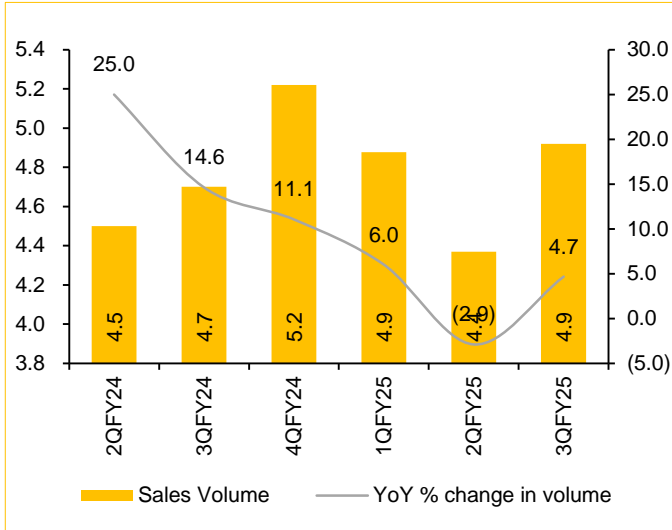
**View & Valuation:** We revise our FY26/27 EPS estimates by 0.6%/3.9% and upgrading our rating to 'BUY' with a revised TP of INR5,532, valuing it at 16x (revised because of improving cement outlook and management commentary on EBITDA/t improvement) on FY27 EV/EBITDA. The management is confident about cement volume growth, projecting a 10% increase in FY26. Additionally, the company has raised its FY26 capex guidance to INR 1,750 Mn to support the expansion of Saifco Cement. This strategic acquisition is expected to help the company penetrate new markets and strengthen its market presence.

<b>JK Cements Ltd.</b>	<b>Q3FY25</b>	<b>Q3FY24</b>	<b>YoY (%)</b>	<b>Q2FY25</b>	<b>QoQ (%)</b>
Volumes	4.9	4.7	4.7	4.4	12.6
Revenues (INR Mn)	29,303	29,348	(0.2)	25,601	14.5
COGS	4,774	3,849	24.0	4,516	5.7
Employee Cost	2,288	1,988	15.1	2,245	1.9
Power & Fuel cost	5,531	6,506	(15.0)	4,928	12.2
Freight Exp.	6,604	6,148	7.4	5,755	14.8
Other Expenses	5,184	4,606	12.6	5,318	(2.5)
EBITDA (INR Mn)	4,921	6,251	(21.3)	2,840	73.3
EBITDA Margin (%)	16.8	21.3	(450)bps	11.1	570 bps
Depreciation	1,457	1,404	3.7	1,463	(0.4)
EBIT (INR Mn)	3,465	4,847	(28.5)	1,377	151.7
EBIT Margin (%)	11.8	16.5	(469)bps	5.4	645 bps
Other Income	446	385	15.9	378	17.9
Interest	1,124	1,141	(1.5)	1,228	(8.5)
PBT	2,793	4,090	(31.7)	1,550	80.2
Tax	894	1,252	(28.6)	189	374.2
PAT (INR Mn)	1,896	2,838	(33.2)	1,258	50.7
Basic EPS (INR)	24.6	36.7		17.6	

## Management Call - Highlights

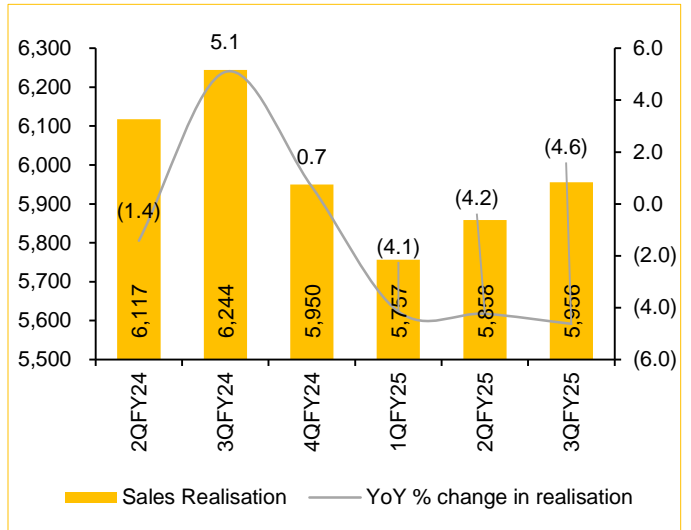
- **Saifco Cements Acquisition:** JK Cement plans to acquire a 60% equity stake in Saifco Cements, with a capacity of 0.42mnt, subject to due diligence and other conditions. The value of the 60% stake is INR1,740 Mn, while the total value of the company is INR2,900 Mn. The acquisition is expected to be completed in the next 3-6 months.
- **Saifco Expansion:** There are plans to increase Saifco's clinker capacity to 1,000 TPD with a capital outlay of INR 500-600 Mn. The plant currently has an EBITDA margin of INR 1,500/t with an opportunity to increase profitability by another INR400/t. The plant also has mining reserves spread over 144 hectares.
- **Toshali Plant:** The Toshali plant in Orissa has undergone modifications and is expected to operate at full capacity from the next fiscal year, generating profits. There have been cumulative losses of about INR 90 Mn at this plant in the nine-month period. The company plans to launch its brand in this quarter in that region.
- **FY25 and FY26 CapEx:** The planned capital expenditure for FY25 is approximately INR 19,000 Mn, plus the INR 1,740 Mn for the Saifco acquisition which will be paid next fiscal year. For FY26, it is planned at INR 17,000 Mn plus the Saifco acquisition cost. The FY26 number includes INR 14,000 Mn for Line 2.
- **Incentives:** The company expects to receive around INR 750 Mn per quarter in incentives, with some variation based on volume and other factors. There was also an additional incentive of INR 100-150 Mn in the current quarter related to the Ujjain plant.
- **Cost reduction:** The company is exploring opportunities to reduce costs by increasing the share of green power and AFR, as well as optimizing logistics costs. They estimate they will achieve savings of INR 40-50/t by the end of the current fiscal year, and an additional INR50/t savings in the next fiscal year.
- **White Cement and Putty Market:** The putty market remains very competitive, with Asian Paints and Birla being very aggressive, which is putting pressure on prices. While overall demand for putty has grown by 8-9%, JK Cement has seen a growth of about 4%, while Asian Paints has grown in double digits. Despite the competitive environment, the company is still achieving EBITDA margins of 15-20% in the white cement business.
- **Impact of Asian Paints:** Asian Paints, a major customer for JK Cement's white cement, is planning to set up a white cement plant in the UAE, primarily for self-consumption, which may impact JK Cement's volume sales by about 100,000/t annually in both the UAE and India.
- **Premium Cement Growth:** The company is focused on increasing its premium cement share, aiming for over 20% in the next two years, with current premium cement sales of about 16%. The majority of the current premium cement sales are in the south, but the company is expanding in the central region and expects to grow sales in the North as well.
- **Volume Growth:** The company expects a volume growth of around 7-8% in the fourth quarter for the grey cement segment, and a volume growth of around 10% for the FY26 from the exit of FY25.
- **Future Limestone Leases:** The company expects that post 2030, most of the cement production will be from mines acquired through auction. Older plants will see more raw material inflation and cost increases as leases expire. The company is well placed in Central India, but less so in Northern India, in terms of the age of their leases.

**Volume grew by 4.9% YoY basis**



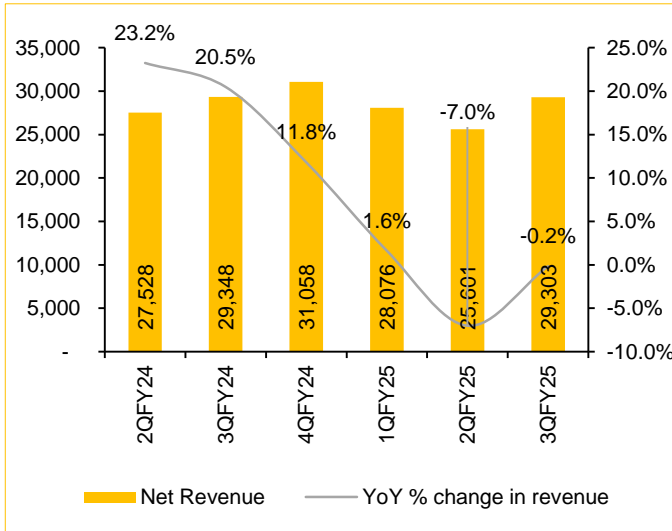
Source: Company, CEBPL

**Realisation started improving on quarterly basis**



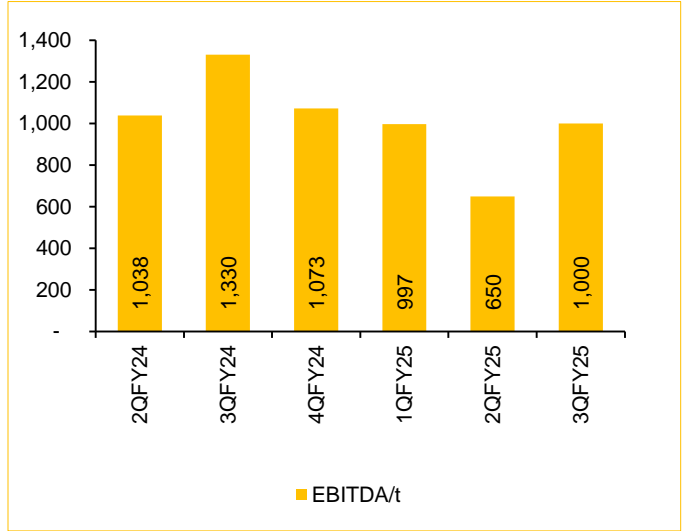
Source: Company, CEBPL

**Flattish revenue on YoY basis**



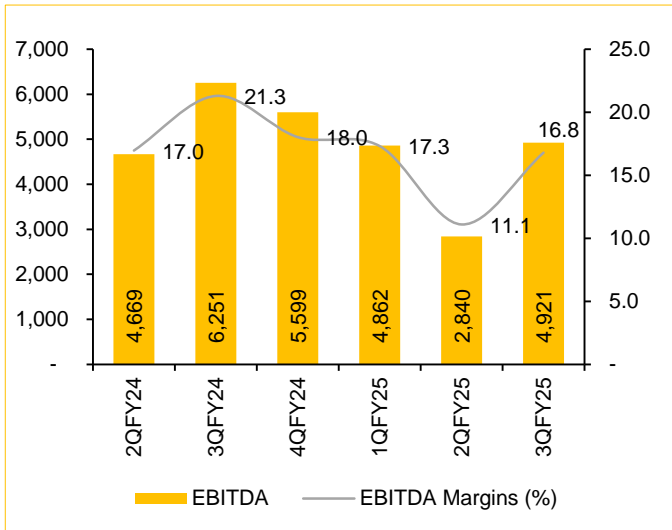
Source: Company, CEBPL

**Cost reduction drove robust improvement in EBITDA/t**



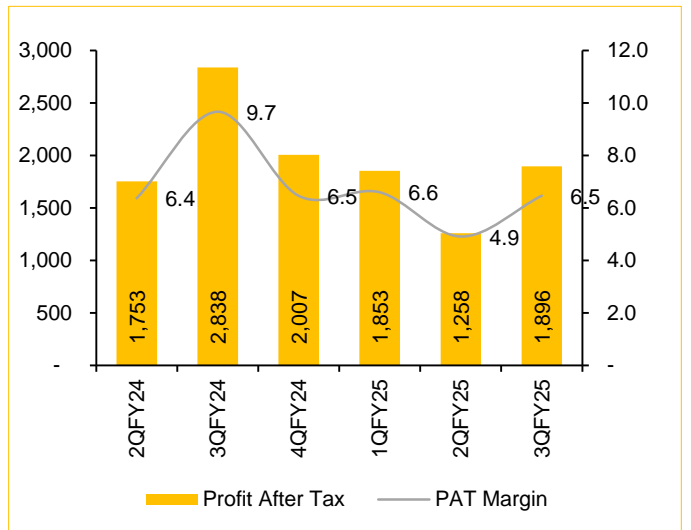
Source: Company, CEBPL

**EBITDA Margins declined by 450bps YoY**



Source: Company, CEBPL

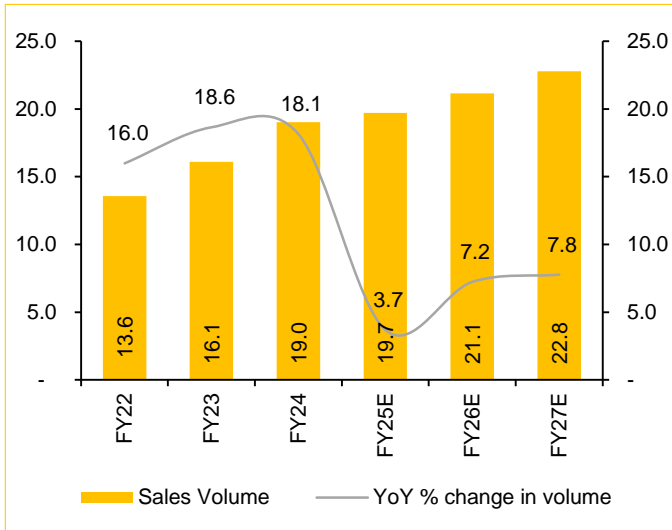
**PAT grew by 6.5% YoY**



Source: Company, CEBPL

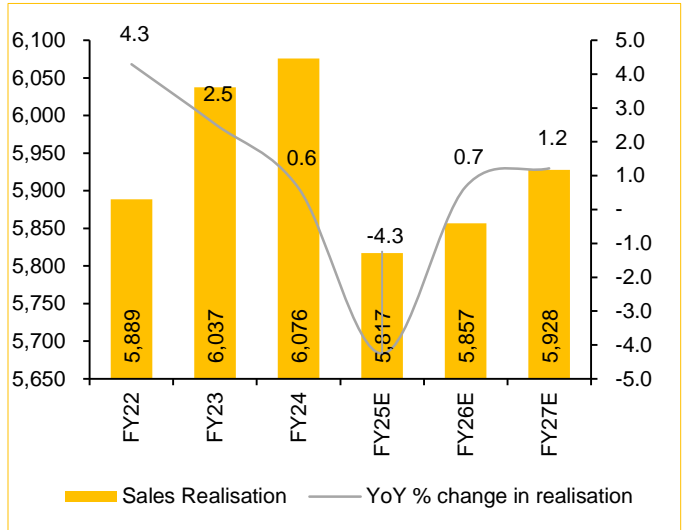
\*All figures are in INR Million

**Volume expected to grow at 6.2% CAGR from FY24-27**



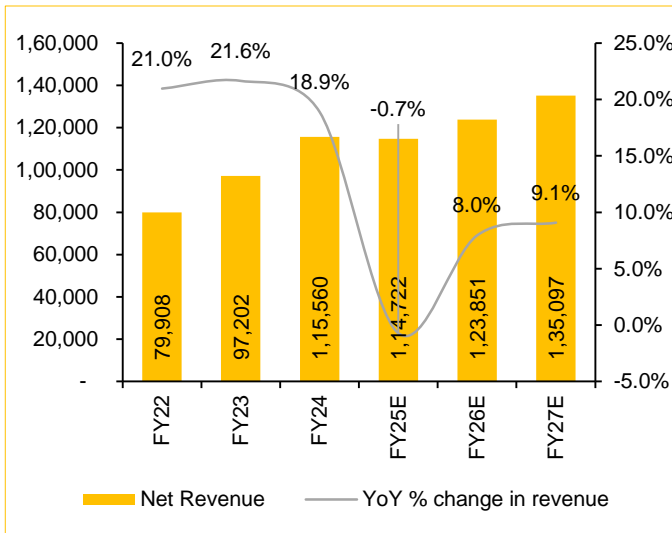
Source: Company, CEBPL

**Realisation seems to bottom out, expected to grow**



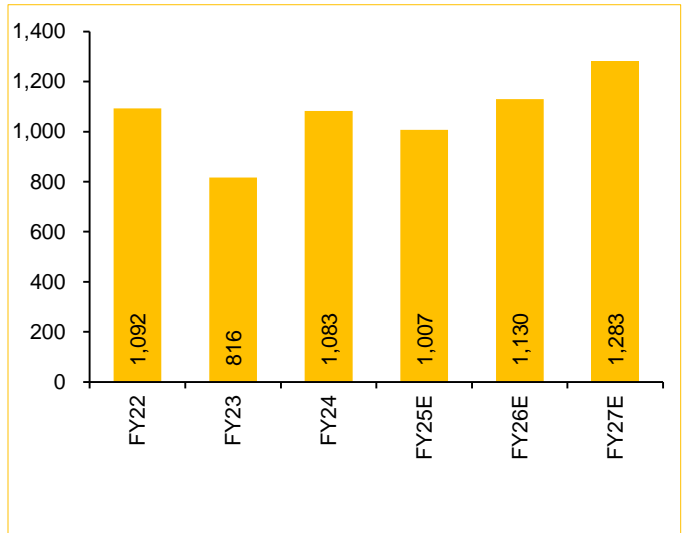
Source: Company, CEBPL

**Revenue expected to improve with growing demand**



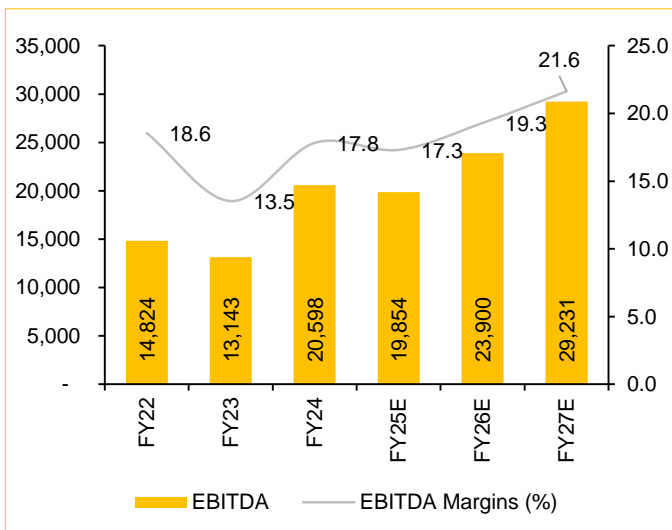
Source: Company, CEBPL

**Cost reduction initiatives led to increase in EBITDA/**



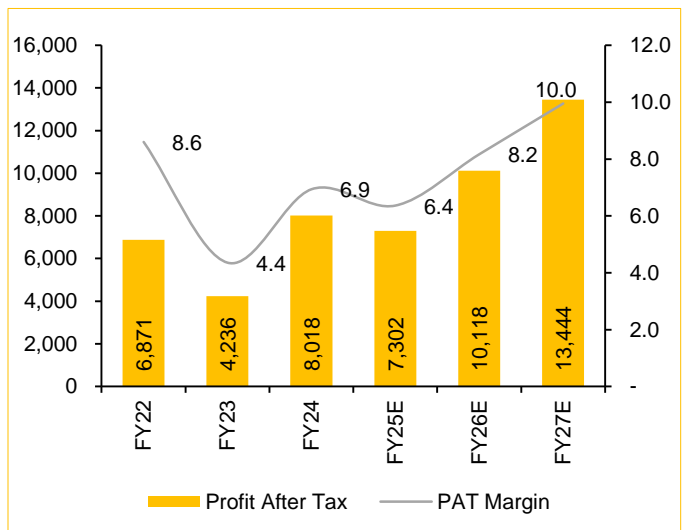
Source: Company, CEBPL

**EBITDA expected to grow at a CAGR of 12.4% over FY24-27**



Source: Company, CEBPL

**PAT is expected to grow at a CAGR of 18.8% over FY24-27**



Source: Company, CEBPL

\*All figures are in INR Million

## Income statement (Consolidated in INR Mn.)

Particular	FY23	FY24	FY25E	FY26E	FY27E
Revenue	97,202	1,15,560	1,14,722	1,23,851	1,35,097
Gross profit	81,274	97,214	96,252	1,03,416	1,12,131
EBITDA	13,143	20,598	19,854	23,900	29,231
Depreciation	4,619	5,726	6,492	7,335	8,100
EBIT	8,524	14,872	13,362	16,565	21,130
Other Income	874	1,451	1,606	1,734	1,891
Interest Expenses	3,122	4,531	4,808	4,808	4,808
Exceptional Item	-	55	-	-	-
PAT	4,236	8,018	7,302	10,118	13,444
EPS (INR)	54.8	103.8	94.5	130.9	174.0

Source: Company, CEBPL

## Balance sheet (Consolidated in INR Mn.)

Balance Sheet (Rs. Mn.)	FY23	FY24	FY25E	FY26E	FY27E
Tangible fixed assets	84,456	92,983	1,05,491	1,16,906	1,25,805
Capital Work in Progress	5,920	4,639	4,175	3,758	3,382
Investments	923	1,002	1,002	1,002	1,002
Cash & Cash equivalents	8,333	8,665	7,952	6,411	10,516
Loans & Advances and Other Assets	18,597	23,253	23,253	23,253	23,253
Net Working Capital	6,401	8,168	8,323	8,985	9,801
<b>Total assets</b>	<b>1,24,629</b>	<b>1,38,710</b>	<b>1,50,196</b>	<b>1,60,314</b>	<b>1,73,758</b>
Shareholder's funds	46,424	53,217	60,518	70,636	84,080
Borrowings	45,578	52,386	56,570	56,570	56,570
Deferred Tax	8,094	10,756	10,756	10,756	10,756
Other Liabilities & Provisions	24,534	22,352	22,352	22,352	22,352
<b>Total equity &amp; liabilities</b>	<b>1,24,629</b>	<b>1,38,710</b>	<b>1,50,196</b>	<b>1,60,314</b>	<b>1,73,758</b>
Capital Employed	90,243	1,02,206	1,13,437	1,22,147	1,33,928
Invested Capital	75,990	88,901	1,01,310	1,11,978	1,20,030

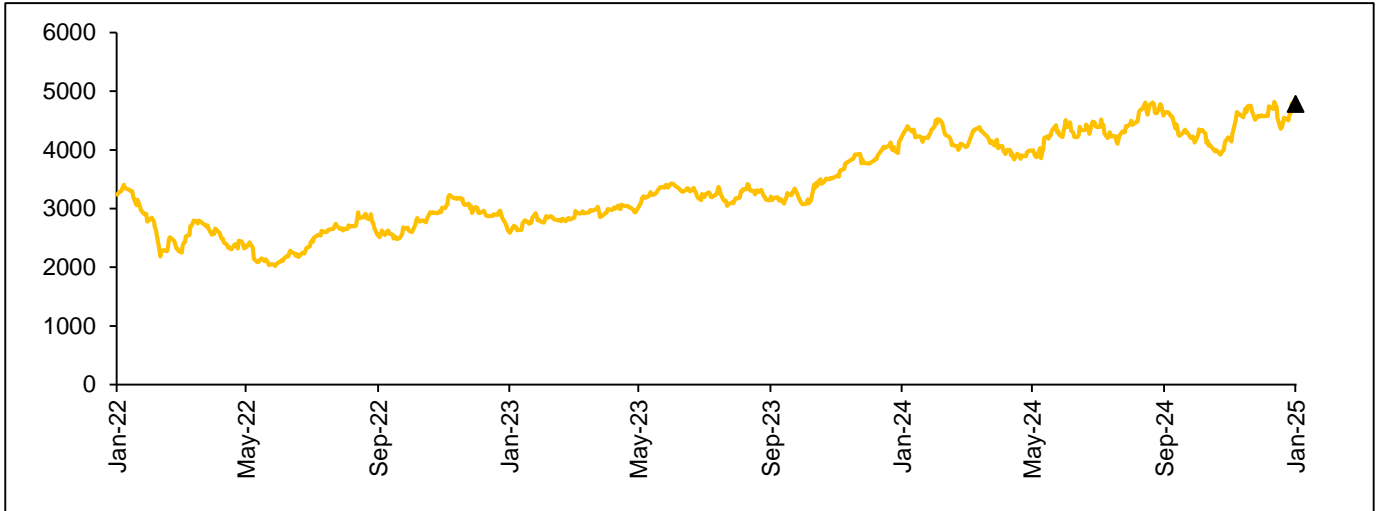
Source: Company, CEBPL

Cash Flows (INR Mn.)	FY23	FY24	FY25E	FY26E	FY27E
CFO	13,771	19,591	18,447	21,600	25,537
Capex	(16,114)	(11,726)	(18,536)	(18,332)	(16,624)
FCF	(2,344)	7,866	(89)	3,267	8,913
CFI	(20,148)	(16,358)	(18,536)	(18,332)	(16,624)
CFF	13,174	2,764	(624)	(4,808)	(4,808)

Ratio Analysis	FY23	FY24	FY25E	FY26E	FY27E
<b>Growth Ratios (%)</b>					
Revenue	21.6	18.9	(0.7)	8.0	9.1
EBITDA	(11.3)	56.7	(3.6)	20.4	22.3
<b>Margin ratios (%)</b>					
EBITDA	13.5	17.8	17.3	19.3	21.6
PAT	4.4	6.9	6.4	8.2	10.0
<b>Performance Ratios (%)</b>					
OCF/EBITDA (X)	1.0	1.0	0.9	0.9	0.9
OCF/IC	18.1	22.0	18.2	19.3	21.3
RoE	9.1	15.1	12.1	14.3	16.0
ROCE	9.4	14.6	11.8	13.6	15.8
<b>Turnover Ratios (Days)</b>					
Inventory	37	37	38	38	38
Debtor	18	18	18	18	18
Payables	31	29	29	29	29
Cash Conversion Cycle	24	26	26	26	26
<b>Financial Stability ratios (x)</b>					
Net debt to Equity	0.8	0.8	0.8	0.7	0.5
Net debt to EBITDA	2.8	2.1	2.4	2.1	1.6
Interest Cover	2.7	3.3	2.8	3.4	4.4
<b>Valuation metrics</b>					
Fully diluted shares (Mn)	77	77	77	77	77
Price (INR)	4,776	4,776	4,776	4,776	4,776
Market Cap(INR Mn)	3,69,042	3,69,042	3,69,042	3,69,042	3,69,042
PE(x)	87.1	46.0	50.5	36.5	27.4
EV (INR Mn)	4,05,364	4,11,760	4,16,658	4,18,199	4,14,094
EV/EBITDA (x)	30.8	20.0	21.0	17.5	14.2
Price to BV (x)	7.9	6.9	6.1	5.2	4.4
EV/IC (x)	5.3	4.6	4.1	3.7	3.4
EV/OCF	29.4	21.0	22.6	19.4	16.2

Source: Company, CEBPL

## Historical Price Chart: JK Cement Limited



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