AXIS SECURITIES

Company Update
26th Dec, 2022

JK Cements Limited

Cement

BUY
Target Price
3350

Acquisition-led Foray into the Paint Business

- **The company to acquire Acro Paint Limited:** JK Paints and Coatings Ltd., (a wholly owned subsidiary of JK Cement Ltd.) has entered into a share purchase agreement with Acro Paints Ltd. and its shareholders to acquire a 60% controlling stake in the company for Rs 153 Cr. The balance 40% shall be acquired over 12 months as per the definitive agreement entered between the two parties. Acro Paints is a leading manufacturer of Architectural and High-performance paints and coatings in Northern India.
- **Paint manufacturing capacity:** Situated in Bhiwadi (Delhi-NCR region), the company has two state-of-the-art manufacturing facilities with a post-expansion capacity of 60,000 Kilo Liter (KL) in decorative & textured paints and 6,700 KL in construction chemicals. The ongoing capacity expansion is expected to be completed by Q2FY24.
- **Exposure to a complete range of paints including construction chemicals:** Acro Paint Limited has a wide product portfolio with having presence in all categories – Economy, Premium, and Luxury with 3,000 SKUs at various price points. The acquisition will also provide an opportunity to foray into the growing vertical of construction chemicals & waterproofing products which has a current market size of 5000+ Cr, growing at over 10% per annum.
- **Strategy to augment Paint business:** The company aims to achieve a turnover of Rs 400 Cr in the next 3-4 years and will incur further Capex to augment the Paint business The management has earlier indicated incurring Capex of Rs 600 Cr for the Paint business out of the internal accruals in the next 5 years and current acquisition is in line with the management strategy to build a paint business in its core market of North India.

  The management also indicated to deepen its presence in its strong markets over the next few years and has identified specific geographic, product, and channel niches for future expansion.
- **Leveraging White Cement and Wall Putty business:** The company intends to leverage its White Cement and Wall Putty business by foraying into the paint business as these businesses are complementary to each other. It has over 1,00,000 dealers, 75,000 influencers, and 1,500 distributors. Along with Acro's distribution network, this deep network will enable the company to reach a wider market, ensuring ready accessibility to customers in the region.
- **Acro's Financial:** The company recorded revenue of Rs 78/78/89 Cr in FY20/21/22 with EBITDA margins ranging between 5-6%. The current utilisation level stands around 50%. In FY23, it is expected to report revenue of Rs 100 Cr. JK Cement has acquired the business at 2.8x of FY22 sales.

Outlook & Valuation

- The company's foray into the paint business should be viewed from a long-term perspective. With both Wall Putty and Paint businesses having common attributes and influential networks, the paint business is expected to complement and support the growth of the Wall Putty business moving forward. Besides, the company is well-placed to leverage its robust existing dealers network and strong presence in the Wall Putty business to augment the paint's business. The company's capital commitment is in line with its aspiration to become the leading regional player in its core markets and we expect significant benefits to accrue over a long period of time.
- JK Cements is currently trading at 17x and 12x FY23E/24E EV/EBITDA and we estimate the company to register Revenue/EBITDA/PAT CAGR of 19%/23%/23% over FY22-FY24E. We maintain our BUY rating on the stock and value it at 13x FY24E EV/EBITDA to arrive at a target price of Rs 3,350/share (**unchanged**), implying an upside of 14% from the current levels.

Key Financials (Consolidated)

(Rs Cr)	FY22	FY23E	FY24E
Net Sales	7,991	9,391	11,260
EBITDA	1,482	1,539	2,234
Net Profit	687	622	1,033
EPS (Rs)	89	80	134
PER (x)	33	36	25
EV/EBITDA (x)	16	17	12
P/BV (x)	5.3	4.7	3.9
ROE (%)	17	14	19

Source: Company, Axis Research

(CMP as of 23rd Dec, 2022)

CMP (Rs)	2934
Upside /Downside (%)	14
High/Low (Rs)	3659/2004
Market cap (Cr)	22669
Avg. daily vol. (6m) Shrs.	124247
No. of shares (Cr)	7.7

Shareholding (%)

	Mar-22	Jun-22	Sep-22
Promoter	45.82	45.84	45.84
FIIs	16.47	16.06	15.61
MFs / UTI	19.49	19.99	20.5
Banks / FIs	0.26	0.01	0.01
Others	17.96	18.1	18.04

Financial & Valuations

Y/E Mar (Rs Cr)	FY22	FY23E	FY24E
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Change in Estimates

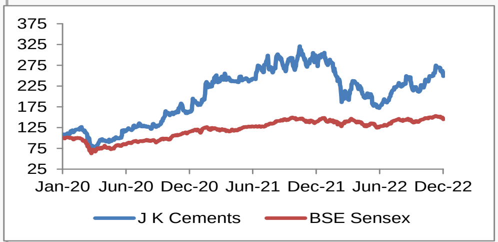
Y/E Mar (RsCr)	FY23E	FY24E
Revenue	0	0
EBITDA	0	0
Net profit	0	0

ESG disclosure Score**

Environmental Disclosure Score	34
Social Disclosure Score	28
Governance Disclosure Score	64
Total ESG Disclosure Score	40

Source: Bloomberg, Scale: 0.1-100
**Note: This score measures the amount of ESG data a company reports publicly and does not measure the company's performance on any data point. All scores are based on 2020 disclosures

Relative performance



Source: Capitaline, Axis Securities

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Financials (consolidated)

Profit & Loss (Rs Cr)

Y/E March	FY22E	FY23E	FY24E
Net sales	**7991**	**9458**	**11259**
Other operating income	0	0	0
Total income	**7991**	**9458**	**11259**
Raw Material	1282	1538	1799
Power & Fuel	1659	2251	2386
Freight &Forwarding	1653	1901	2206
Employee benefit expenses	559	615	677
Other Expenses	1355	1600	1952
EBITDA	**1482**	**1553**	**2240**
Other income	143	99	135
	0	0	0
PBIDT	1625	1652	2375
Depreciation	342	423	493
Interest & Fin Chg.	270	284	322
E/o income / (Expense)	0	0	0
Pre-tax profit	**1013**	**945**	**1559**
Tax provision	334	316	521
Minority Interests	8	8	8
Associates	0	0	0
RPAT	**687**	**637**	**1046**
Other Comprehensive Income	0	0	0
APAT after Comprehensive Income	**687**	**637**	**1046**

Source: Company, Axis Securities

Balance Sheet (Rs Cr)

Y/E March	FY22E	FY23E	FY24E
Total assets	**11403**	**12836**	**13929**
Net Block	7124	8404	9261
CWIP	1032	500	500
Investments	216	216	216
Wkg. cap. (excl cash)	920	929	1076
Cash / Bank balance	325	297	275
Misc. Assets	179	249	260
Capital employed	**11403**	**12836**	**13929**
Equity capital	77	77	77
Reserves	4248	4830	5814
Minority Interests	-34	-34	-34
Borrowings	3855	4605	4605
Def Tax Liabilities	738	738	738
Other Liabilities and Provision	2519	2620	2729

Source: Company, Axis Securities

Cash Flow (Rs Cr)

Y/E March	FY22E	FY23E	FY24E
Profit before tax	**1013**	**945**	**1559**
Depreciation	342	423	493
Interest Expenses	264	284	322
Non-operating/ EO item	-40	-99	-135
Change in W/C	-431	-81	-148
Income Tax	214	316	521
Operating Cash Flow	**935**	**1156**	**1571**
Capital Expenditure	-1554	-1702	-1351
Investments	130	0	0
Others	118	99	135
Investing Cash Flow	**-1305**	**-1604**	**-1216**
Borrowings	435	750	0
Interest Expenses	-258	-284	-322
Dividend paid	-116	-54	-62
Others	0	0	0
Financing Cash Flow	**61**	**412**	**-384**
Change in Cash	-56	-29	-21
Opening Cash	147	103	75
Closing Cash	**103**	**75**	**53**

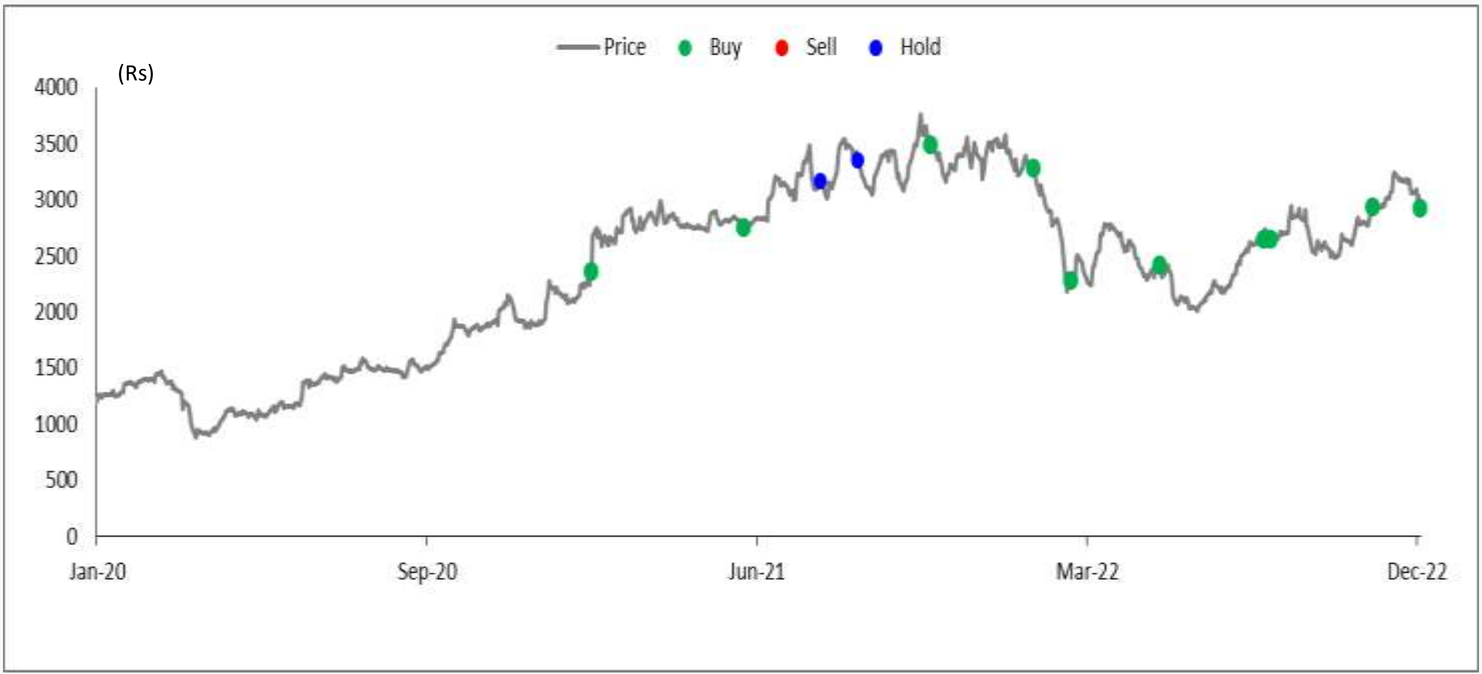
Source: Company, Axis Securities

Ratio Analysis (%)

Y/E March	FY22E	FY23E	FY24E
Operational Ratios			
Gross profit margin	43%	40%	43%
EBITDA margin	19%	16%	20%
PAT margin	8%	7%	9%
Depreciation / G. block	3.9%	3.8%	4.0%
Growth Indicator			
Sales growth	21%	18%	19%
Volume growth	16%	11%	17%
EBITDA growth	-4%	5%	44%
PAT growth	-3%	-7%	65%
Efficiency Ratios			
Sales/Gross block (x)	0.91	0.86	0.91
Sales/Net block(x)	1.2	1.2	1.2
Working capital/Sales (%)	9%	6%	7%
Valuation Ratios			
PE (x)	33	36	22
P/BV (x)	5.3	4.7	3.9
EV/Ebitda (x)	17	17	12
EV/Sales (x)	3.2	2.8	2.3
MCap/ Sales (x)	2.8	2.4	2.0
EV/Tonne $	179	135	135
Return Ratios			
ROE	17	14	19
ROCE	15	13	18
ROIC	18	15	21
Leverage Ratios			
Debt / equity (x)	0.9	0.9	0.8
Net debt/ Equity (x)	0.6	0.7	0.6
Net debt/Ebitda	1.7	2.2	1.5
Interest Coverage ratio (x)	4.8	4.3	5.8
Cash Flow Ratios			
OCF/Sales	11%	12%	14%
OCF/Ebitda	59%	75%	70%
OCF/Capital Employed	11%	13%	15%
FCF/Sales	-8%	-11%	2%
Payout ratio (Div/NP) (%)			
AEPS (Rs.)	7	8	6
AEPS Growth (%)	89	82	135
CEPS (Rs.)	-3	-7	64
DPS (Rs.)	133	137	199

Source: Company, Axis Securities

JK Cement Price Chart and Recommendation History



Date	Reco	TP	Research
10-Feb-21	BUY	2,520	Result Update
15-Jun-21	BUY	3,130	Result Update
17-Aug-21	HOLD	3,100	Result Update
17-Sep-21	HOLD	3,330	AAA
16-Nov-21	BUY	3,870	Result Update
09-Feb-22	BUY	3,740	Result Update
14-Mar-22	BUY	3,100	Company Update
24-May-22	BUY	2,800	Result Update
17-Aug-22	BUY	3,020	Result Update
23-Aug-22	BUY	3,020	AAA
14-Nov-22	BUY	3,350	Result Update
26-Dec-22	BUY	3,350	Event Update

Source: Axis Securities

About the analyst

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Sector: Cement/Mid Caps

Analyst Bio: Uttam Kumar is PGDBF from NMIMS with 20 years of experience in Equity market and Research.

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Ratings	**Expected absolute returns over 12-18 months**
BUY	More than 10%
HOLD	Between 10% and -10%
SELL	Less than -10%
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