

Management Discussion & Analysis

Global economy

The global economic recovery from the COVID-19 pandemic, the Russia-Ukraine war, and the cost-of-living crises is proving to be surprisingly resilient. Inflation is falling faster than expected from its 2022 peak, with a smaller-than-expected toll on employment and activity, reflecting favourable supply-side developments and tightening by central banks, which has kept inflation expectations anchored. At the same time, high interest rates aimed at fighting inflation and a withdrawal of fiscal support amid high debt are expected to weigh on growth in 2024.

However, there can be adverse shocks on account of the recent Gaza-Israel conflict, which could escalate further into the wider region, that produces about 35% of the world's oil exports and 14% of its gas exports. Further, continued attacks in the Red Sea through which 11% of global trade flows act as barrier for global recovery. Container shipping costs have already increased sharply and the situation in the Middle East remains volatile. Further geoeconomic fragmentation could also constrain the cross-border flow of commodities, causing additional price volatility. More extreme weather shocks, including floods and drought, could, together with the El Niño phenomenon, also cause food price spikes, exacerbate food insecurity and jeopardise the global disinflation process.

Global growth, is projected to remain at 3.1% in 2024 and 3.2% in 2025. Nevertheless, the projection for global growth in 2024 and 2025 is below the historical (2000–2019) annual average of 3.8%, reflecting restrictive monetary policies and withdrawal of fiscal support, as well as low underlying productivity growth.

World trade growth is projected at 3.3% in 2024 and 3.6% in 2025, below its historical average growth rate of 4.9%. Rising trade distortions and geoeconomic fragmentation are expected to continue to weigh on the level of global trade. Many countries imposed about 3,200 new restrictions on trade in 2022 and about 3,000 in 2023, up from about 1,100 in 2019, according to the Global Trade Alert data. These forecasts are based on assumptions that fuel and nonfuel commodity prices will decline in 2024 and 2025 and that interest rates will decline in major economies. Annual average oil prices are projected to fall by about 2.3% in 2024, whereas non-fuel commodity prices are expected to fall by 0.9%.

Advanced economies growth is projected to decline slightly from 1.6% in 2023 to 1.5% in 2024, before rising to 1.8% in 2025.

Britain's economy fell into recession in second half of 2023. Japan has unexpectedly fallen into recession, its economy is now the fourth-largest and behind Germany.

In emerging and developing Asia, growth is expected to decline from 5.4% in 2023, 5.2% in 2024 to 4.8% in 2025.

Growth in India is projected to remain strong at 8.2% in FY 2023-24 and is expected to grow at 7.2% in FY 2024-25, reflecting resilience in domestic demand.

India economic growth

India is the fifth-largest economy with a GDP of \$ 3.7 trillion (estimate FY24), despite the pandemic and inheriting an economy with macro imbalances and a broken financial sector. On the other hand, India still shines as a 'bright spot' on the global map, despite geopolitical conflicts and economic headwinds retaining its position as the fastest-growing nation in the world and on a growth trajectory to achieve a \$ 5 trillion mark GDP by 2027, thereby becoming third-largest economy in the world.

India cement industry

India is the world's second-largest cement producer in the world after China, with a total capacity of about 634 million tonnes in FY24. Capacity addition was 45-47 million tonnes in FY24. The demand for cement is closely related to growth in the construction sector, growing at 11% in FY24 to reach 445 million tonnes, led by the pre-election infra push.

Cement demand is expected to register a of 6-7% CAGR growth over next five years driven by infrastructural investments and a healthy revival in housing demand. Capacity addition momentum is expected to increase in FY25 due to a positive demand outlook and players' efforts to maintain market share in a competitive market, especially by large players.

The end-use sector mix within the cement industry mainly comprises the housing (57-59%), infrastructure (27-29%), and industrial/commercial (13-15%) segments. The housing segment is expected to moderate over the next five years (FY24-FY28), on a high base but will remain a key contributor backed by a lower concretisation rate in the country (which means high potential for cement demand growth). Even as housing will be the key volume contributor, infrastructure will expand its share in the next five years, with the government focusing on infrastructure spending through its flagship schemes, such as PM Gati Shakti, and rising investments in roads, railways, metros, airports, and irrigation. The central government's thrust on infrastructure with a plethora of projects in the National Infrastructure Pipeline and the state governments' efforts to increase capex will drive healthy infrastructure-led demand growth in the medium term.

Outlook – Housing and infrastructure to support cement industry

Out of the existing 29.5 million houses, 25.5 million houses have been constructed till Jan'24, with as much as 70%

of these having women as either sole or joint owners. The Interim Budget increased the target under PMAY(G) by 20 million houses for next five years under rural low-cost housing. This would not only reduce rural house shortages but also act as a catalyst for incremental cement demand of at least 15 MTPA.

The Ministry of Road Transport & Highway (MoRTH) gross budget for FY25 is ₹ 2.72 lakhs Crores, which is 3% higher vs ₹ 2.64 lakhs Crores in FY24. The Bharatmala project which has set a target to complete 60,000 km of roads, out of which in the Phase 1 target of 34,800 km target was set in 2015. Till Dec'23, only 15,549 km have been completed. The Government has extended the timeline for completion of the Bharatmala Phase 1 by 2028.

The Railway budget allocation of ₹ 2.65 lakhs Crores is 2% higher than FY24. The three Corridors will be developed enabling multimodal connectivity, including 1) energy, mineral & cement corridors 2) Port Connectivity corridors and 3) high traffic density corridors under the PM Gati Shakti plan. Further, the Government intends to expand the Metro Rail and Namoo Bharat projects to more cities. Currently, 874 km of Metro Rail is operational in the country and another 986 km is under construction at various stages.

Decarbonisation goal of net zero emission by 2050

India's has set targets to achieve net zero emission by 2050. The Cement industry is responsible for 7-9% of the nation's overall carbon emissions. In order to achieve the set targets, a call has to be taken for a diverse range of low-carbon solutions, including modern and cutting-edge technologies, process adjustments and behavioural changes.

Cement production is one of the highest-emitting industrial sectors and releases CO₂ majorly through two main routes - direct emissions and indirect emissions. The share of CO₂ in GHG emissions is the highest, accounting for close to 98-99% of the total emission while that of NO_x and Methane remains negligible.

Under direct emissions, there are two main activities - calcination and fuel combustion. Fossil fuels used for heating a pre-calciner/rotary kiln accounts for 30-35% of total CO₂ emissions, balance 50-55% of the total CO₂ emissions is generated in the process relating to chemical reaction for decomposition of limestone in the pre-calciner.

Indirect emissions accounts for the remaining 10-15% CO₂ emissions with power/electricity and logistics accounting for 8-10% and 2-5% of CO₂ emissions, respectively.

Sustainability journey at JK Cement

JK Cement Sustainability journey is aligned with Industry best practises followed for achieving Net Zero Emission

target. Our ambitious environmental targets for FY 2030, including comprehensive Scope 1 and Scope 2 emissions goals is aligned with the critical 1.5°C trajectory, have been recognised by the Science Based Targets initiative (SBTi).

Currently GHG emission Net Scope 1 (excluding CPP & AFR) stood at 512 kg CO₂e/tonne cementitious product and our focus is to reduce further to 465 kg CO₂e/tonne of cementitious material by FY 2030. Further, our green power mix stood at 51% and Thermal Substitution Rate (TSR) at 16.3% and our target is to achieve 75% green power and 35% Thermal Substitution Rate (TSR) by FY30.

Roadmap for achieving net zero emission

Substitution of clinker - Blended cement such as PPC/ PSC & Composite Cement uses waste products like fly ash, slag, etc. to replace clinker and reduces the greenhouse-gas emissions. Hence, higher the cement to clinker ratio, lower is the clinker usage in the cement, thereby leading to lower emissions. PSC Cement to Clinker ratio is 4x, while Composite Cement is 2.86x and PPC is 1.54x, respectively.

Alternative fuel consumption/energy efficiency -

Technologies such as Waste Heat Recovery Systems (WHRS), reducing the use of fossil fuels as well as converting current fossil fuel-based facilities into renewable biomass fuel-based units, are some of the measures used by cement companies to reduce the emissions. Coal and petcoke are the two most carbon-intensive fuels typically used to heat cement kilns. Cement plants are constantly looking for suitable and low-cost alternative fuels to bring down their fuel costs and reduce their CO₂ emissions. As of 2021, the percentage of alternative fuel use in the Indian cement industry is estimated to be around 5-6%, according to the Cement Manufacturers Association (CMA) of India. The Indian government has set a target of 25% alternative fuel use in the cement industry by 2030 as part of its commitment to reducing carbon emissions and promoting sustainable development. By generating power using the hot gases produced during the manufacturing process in kiln firing, cement companies are able to control power cost which in turn support operating profitability also. The WHR power generated from kiln are sufficient for kiln operations.

Newer technologies and products – Green cement and LC3 – Green cement is essentially cement produced by companies through various manufacturing techniques that reduce carbon emission. Compared with OPC, green cement consumes about 60% less thermal energy and the carbon-emission intensity of green cement is also 60% less. Limestone Calcined Clay Cement (LC3) is a new type of cement that is based on a blend of limestone and calcined clay. LC3 can reduce CO₂ emissions by up to 40%, by using limestone and low-grade clays, which are available in abundant quantities, is cost-effective and does

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not require capital-intensive modifications to existing cement plants.

Performance - India operations

Industry margins improved in FY24 mainly due to a decrease in fuel costs and an increase in cement prices owing to pent up demand before the elections and the state machinery utilising its allocated budget for ongoing infrastructure activities.

Further, Central India expansion achieved 82% capacity utilisation in its first full year of operations.

Company's operational and financial performance

Standalone

- 1) Grey Cement, White Cement and Wall Putty Sales volumes increased to 18.52 MnT as against *15.80 MnT in 2022-23, thereby registering a growth of 17%
- 2) Revenue from Operations grew by 17% to ₹ 10,918 Crores from *₹ 9,310 Crores in previous year
- 3) EBITDA recorded a growth of 52% at ₹ 2,006 Crores from *₹ 1,327 Crores in 2022-23
- 4) Net profit is higher at ₹ 831 Crores as against *₹ 503 Crores in 2022-23, recorded a growth of 65%

*reinstated due to amalgamation of Jaykaycem(Central) Ltd.

Expansion and acquisition in Grey Business

1) Expansion

Ujjain Grinding Unit having a capacity of 1.5 MTPA was commissioned in Nov'23. Within 12 months from start of work and ramp up to almost 60% capacity utilisation in Jan Mar'24 quarter.

2) Acquisition

Acquired Toshali Cements (P) Ltd. with an Integrated Unit having capacity of 0.20 MTPA in Ampavalli, Odisha and Split Grinding Unit of 0.44 MTPA in Cuttack, Odisha to extend footprint in Eastern markets.

Information technology

As we reflect on the digital and IT landscape, our achievements and milestones in leveraging technology to drive innovation, efficiency, and growth across our organisation is unprecedented.

Some of the major initiatives in information technology includes:

A) Digital transformation initiatives

1. Successfully implemented next-generation ERP suite from **SAP - S/4 HANA on RISE** across the organisation with real-time analytics, simplified data model, enhanced user experience,

integrated business processes and cloud-ready architecture.

2. With a focus on harnessing the power of emerging technologies to enhance customer experiences, AI-powered chatbots have been launched on our website.
3. Enhanced our Customer Digital Onboarding Portal for seamless onboarding of channel partners.
4. UPHAAR 4.0: New and improved features in Loyalty Application for contractors has been successfully launched.
5. Leveraging Warehouse Management System to optimise inventory management processes for New Paints business.
6. Implemented QR code printing on White Cement bags to ensure product authenticity and check infringement.
7. Optimisation of Travel and Expense Management using SAP CONCUR leading to Single Day reimbursements.

B) Infrastructure and information security initiatives

1. Cybersecurity remains a top priority for our organisation. We are now a **CERT-IN compliant organisation**, maintaining ICT logs for 180 days and reporting cyber incidents in 6 hours to CERT-IN.
2. **Data Loss Prevention Solution** has been deployed for protection of sensitive data, effectively mitigate the risk of data loss, ensure data privacy and compliance, and safeguard critical assets and reputation from security threats and breaches.
3. **Network Access Control** has been deployed to effectively manage access networks, mitigate security risks, and protect critical assets and data from unauthorised access and cyber threats.
4. **Darktrace Network Detection and Response (NDR)** provides AI-powered threat detection, continuous monitoring, automated threat response, behavioural analytics, threat hunting and investigation capabilities to protect against advanced cyber threats.
5. **SDWAN** has been implemented to provide Centralised Redundancy and encrypted multi-path routing. This solution offers optimised network performance and cost-effective connectivity by intelligently routing traffic across multiple paths while providing centralised management for enhanced security and control.

- 6. **Server landscape optimisation** (On-prem and Cloud) has been done to maximise efficiency, performance, and resource utilisation while minimising costs and complexity.
- 7. **Centralised Backup Solution** successfully deployed to secure the Company server, storage, and end-point data pan-India.

We have diligently charted the course for JKCL's digital evolution, with initiatives underway to elevate our digitalisation efforts. These includes bringing single platform for Sales Force and Channel Management, consolidate and effectively utilise data across organisation, leverage AI to enable data-driven decision-making and customer delight, and further strengthen our cybersecurity defences and protect against advanced cyber threats.

Internal Audit function

Internal controls

The Company has a robust and well-embedded system of internal controls which are commensurate with the nature of its business, the size and operational complexity and such internal financial controls with reference to the Financial Statements are adequate. The Internal Audit function provides assurance to the Board regarding the adequacy and efficacy of internal controls, advises management on the changing risks and controls landscape and helps anticipate and mitigate emerging risks. The internal audit plan focuses on critical risks that matter and is aligned with the business objectives. Progress to plan and key findings are reviewed by the Audit Committee each quarter. Further, the Audit Committee also monitors the status of management actions following the internal audit reviews. The Company's focus continues to be on embedding technology like data analytics, process mining, and continuous control monitoring in all internal audit work procedures.

Risk Management

The Company's risk management procedures take into consideration external as well as internal threats to devise efficient strategies for mitigating a diverse set of risks. The Company recognises the need to identify changing risks and adopts a strategic approach for risk management

Regular meetings of the Risk Management Committee are held to review and further improve the risk management systems of the Company to ensure a consistent, efficient and effective assessment and management of risk in the achievement of the organisation's objectives. Risk management is an ongoing activity considering the dynamic business environment in which Company operates. Continuous reassessment of risks and mitigation plan has helped the Company to mitigate new evolving risks and minimise

adverse effect of such risk in the interest and for the benefit of all the stakeholders.

Human Resources development

Our people, have always been our greatest asset and the main force behind our journey of continuous growth and diversification. Gender diversity is an area where we are intending to enhance with a laser sharp focus by working on people processes and systems which are directly aimed at both attracting, retaining and nurturing gender diverse talent.

At JK Cement, our interwoven Talent Acquisition, Talent Management, and L&D strategy strives to create a holistic Employee Value Proposition which is 'Jazbaat Se Banaa Junoon Se Judaa', ensuring that everyone, irrespective of their level, can be a vital contributor to the organisation and achieves their highest potential.

It is our continuous endeavour to build a culture of agility, transparency, and trust thus, creating a future-ready organisation.

We have linked HR Strategy with our business plans and defined four strategic pillars. These pillars pave the way for business partnering and enables the business to focus on their core agenda with trust and confidence that the people agenda is aligned to.

- A. **Technology:** By adapting modern technology, we have strived to understand employees' unique needs and have simplified processes by the digitalisation of our HR systems leading to greater efficiency and transparency across locations. Continuous improvements in HR-related Management Systems and new additions like 'Continuous Feedback System' and SAP Concur for Employee Expense Reimbursement are significantly enhancing employee experiences. Further, the introduction of a digital employee orientation programme provides new employees to experience of a virtual walk-through business operations, plant locations, organisation structure, policies & practices, and other important areas. Today, we are 90% paperless and aim to be absolutely paperless in the next one year.
- B. **Policies, Processes & Practices:** Our policies & processes are derived from our strategic intent and continuous benchmarking across the industry. With technology being one of the pillars, reengineering of our processes and policies go hand-in-hand. Our endeavour is to introduce progressive policies and systems which will make our employees and business more agile and responsive.

We continually drive various training and development, engagements, and talent initiatives to cultivate a workplace that is not just productive but also fosters a strong employer brand to attract

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and retain top talent. We want all our existing employees to be our strong brand ambassadors and act as catalysts in attracting more talent. Moreover, this year marked a significant milestone in our journey towards robust people practices, with the completion of a fully digital appraisal process executed in record time before the start of the next financial year. **This is an industry first and also first for us in our lifetime.** This achievement is a part of our commitment towards driving transparency in employee evaluations and ensuring timely recognition & reward for our team's hard work and dedication. We involved the family members of the employees in celebrating their achievements and 'a Letter of Gratitude' has been shared with family members of employees being promoted, as we believe family support plays a significant role in an employee's success.

Our continuous focus on industry benchmarking aims to position JK Cement as an employer of choice. Furthermore, we celebrated our '**Founder's Day – Samman,**' honouring long-serving employees and channel partners. Our signature **Rewards and Recognition (R&R) program, 'PROTSAHAN,'** recognised over 700 **employees** across our corporate and regional offices in its 4th and 5th cycle, acknowledging their contributions and exemplary performance.

- C. Talent Farming/Mining:** JK Cement is focused on grooming internal talent and providing next level opportunities to its people. We have made internal elevation as a preferred mode of fulfilling talent needs. We pride ourselves on being an organisation that cultivates talent from within, a strategy that has seen most of our leadership positions filled by individuals who have grown their careers with us. In the past year alone, we have opened new avenues for over 450 employees, providing them with opportunities for growth and development. Continued expansions led to addition of colleagues to our JK Cement family and our hiring strategy is complemented by our focus on diversity and inclusion, ensuring a workplace that respects and values the contributions of all. Our accomplishments in the last year are a testament to the unwavering effort, dedication, and hard work of each member of our JK Cement family.

At JK Cement, we have strengthened our young talent pipeline for Management Trainees (MT) and Graduate Engineer Trainees (GET) and utilising this talent source to the fullest to achieve our diversity goals.

- D. Business Focus:** We emphasise factors like a deep understanding of the business, agility, innovation, and, most importantly, a blend of passion, positivity, and energy when building a successful team. Our commitment to our employees is evident through our

collaborative work culture and continuous employee connect initiatives. As a fundamental principle, we prioritise employee engagement and retention. To achieve this, we have successfully implemented systems to understand and proactively address employee feedback. We have also strengthened our connect at regional and plant levels through continuous visits and interactions with them. Our leadership visits and townhall meetings at locations have helped in terms of providing platforms to employees for sharing any ideas, suggestion or concerns in an open forum.

At JK Cement, learning and development stands as a cornerstone within our Human Capital Strategy, underscoring our commitment to continuous capability development and skill enrichment. We prioritise building capabilities and developing talent to meet evolving skill and competency needs. Our Learning and Development function has significantly increased overall training man-days to 2 per employee, equivalent to more than 64,237 **training man-hours**. Managers across levels completed planned Management Development Programs (MDPs) and Leadership Development Programs (LDPs) from prestigious institutes such as INSEAD (France), Cambridge University, UK, IIM (Bangalore) and ISAB's (BLHP & ALHP) human labs. Continuing our path towards leveraging technology, we launched our first Digital Orientation programme, 'JUMPSTART,' as a part of our flagship onboarding programme. The purpose of JUMPSTART is to successfully and uniformly orient new employees to the culture of JK Cement Ltd. 'UDAY' is our flagship Young Leaders Program to develop future leaders within the organisation by selecting a pool of young talent and providing them a growth platform. Our 'AAROH' programme is to successfully and uniformly orient fresh talent (GET/MT/EMT/CA trainees, etc.) into the culture of JK Cement Ltd.

This year, our commitment to fostering a nurturing and empowering work environment has been recognised once again, as JK Cement proudly stands as a '**Great Place To Work**' for the fifth consecutive year. This accolade, alongside our recognition as part of the **CII-HR Excellence Award**, reflects our commitment to creating a workplace that not only drives performance but also champions the well-being and development of every member of our family.

This exciting journey to making JK Cement an employer brand would help attain new heights in years to come.

4,196

The Workforce as on 31 March 2024