

SELL

TP: Rs 551 | ▼ 20%

JK LAKSHMI CEMENT

Cement

08 September 2023

AGM takeaways: Challenges persist; maintain SELL

- **Borrowing limit raised to Rs 70bn at AGM but resolution to hike inter-corporate transaction limit 4x to Rs 100bn rejected**
- **Maintains guidance of 30mt capacity expansion by 2030 and elevated net debt/EBITDA ratio of >3x during capex phase**
- **Retain SELL with unchanged TP of Rs 551, valuing JKLC at 8x FY25E EV/EBITDA**

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Borrowing limit enhanced: JKLC has enhanced its borrowing limit from Rs 40bn to Rs 70bn at its recent AGM through a special resolution that garnered the approval of a majority of shareholders. This will pave the way for the company's planned capacity expansion drive and allow for a quick response to any emerging growth opportunities.

Proposal to enhance borrowing via ICDs rejected: JKLC also sought approval to raise inter-corporate deposits (ICD) close to four-fold from Rs 26bn to Rs 100bn at the AGM. However, the resolution received only 71.1% of shareholder votes, falling short of the minimum 75% threshold needed to pass it. The company had aggregate ICDs of ~Rs 24bn in FY23.

Higher ICDs targeted at inorganic growth: JKLC indicated that it had proposed the higher ICD limit because it was evaluating the acquisition of a target company at an EV of Rs 60bn-65bn. However, since the acquisition failed to materialise, the company did not aggressively pursue the ICD resolution with investors.

Capacity expansion guidance unchanged: JKLC presented a roadmap to achieving its capacity addition target of 30mn tonnes by 2030, entailing expansion of 18mt at UCWL and 3mt each at four brownfield projects in Durg, Nagaur, Kutch and UCWL, at an estimated capex of Rs 80bn. The company has also arranged to source 40MW of power from a third party via the captive route for its Durg cement plant. The Udaipur clinker line is scheduled to become operational in Q3FY24, with cement capacity of 2.5mt expected by end-Q2FY25. Management maintained guidance of peak net debt-to-EBITDA of 3.4-3.5x during the capex phase.

Maintain SELL: We maintain our SELL rating on JKLC and continue to value the stock at 8x FY25E EV/EBITDA for an unchanged TP of Rs 551. We believe the company's willingness to take leverage beyond ~3x from the current ~2.5x will add risk to the balance sheet. Operating efficiencies could also prove more challenging to eke out in the near term as ACEM's acquisition of Sanghi Industries is likely to sharpen competition in the company's key market of Gujarat.

Key changes

| Target | Rating |
|--------|--------|
| ◀ ▶ | ◀ ▶ |

| | |
|------------------|----------------|
| Ticker/Price | JKLC IN/Rs 689 |
| Market cap | US\$ 986.8mn |
| Free float | 54% |
| 3M ADV | US\$ 2.4mn |
| 52wk high/low | Rs 897/Rs 501 |
| Promoter/FPI/DII | 46%/14%/26% |

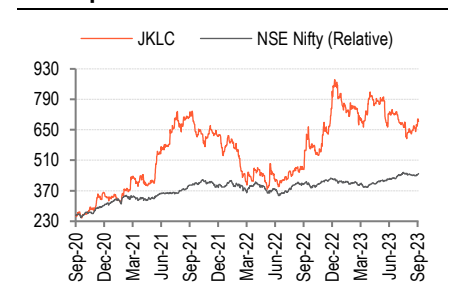
Source: NSE | Price as of 7 Sep 2023

Key financials

| Y/E 31 Mar | FY23A | FY24E | FY25E |
|-------------------------|--------|--------|--------|
| Total revenue (Rs mn) | 60,711 | 67,356 | 73,729 |
| EBITDA (Rs mn) | 7,043 | 7,869 | 9,555 |
| Adj. net profit (Rs mn) | 3,308 | 3,875 | 4,708 |
| Adj. EPS (Rs) | 28.1 | 32.9 | 40.0 |
| Consensus EPS (Rs) | 28.1 | 44.2 | 51.1 |
| Adj. ROAE (%) | 12.6 | 13.2 | 14.4 |
| Adj. P/E (x) | 24.5 | 20.9 | 17.2 |
| EV/EBITDA (x) | 11.1 | 10.2 | 9.3 |
| Adj. EPS growth (%) | (26.4) | 17.1 | 21.5 |

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



AGM takeaways

- **Borrowing limits raised:** JKLC has passed a special resolution at its AGM to raise sanctioned borrowing limits from Rs 40bn to Rs 70bn.
- **ICD resolution fails:** Under current regulations, JKLC's inter-corporate transactions cannot exceed ~Rs 26bn unless it secures shareholder approval by special resolution to raise this limit. The company's ICD transactions for FY23 stood at Rs 24bn. JKLC sought approval to raise the cap to Rs 100bn from the current limit of Rs26bn. However, the resolution fell short of the minimum 75% votes required for approval. JKLC indicated that it did not pursue the resolution further as the inorganic acquisition opportunity for which it required the funds did not materialise.
- **Capacity expansion roadmap:** JKLC laid out a roadmap to raise capacity from ~14mt currently to 30mt by 2030 at Rs 80bn in capex. This includes expansion of 18mt at subsidiary Udaipur Cement Works (UCWL) and 3mt each across four brownfield projects in Durg (Chhattisgarh), UCWL (Rajasthan), Nagaur (Rajasthan) and Kutch (Gujarat).
- **Mine acquisitions in advanced stage:** The company is nearing completion of limestone mine acquisitions in Nagaur, Rajasthan, through its subsidiary, Hansdeep Investment. It has also arranged to source 40MW of power from a third party via the captive route for its Durg cement plant in Chhattisgarh.
- **Udaipur expansion:** The Udaipur clinker line is due to become operational in Q3FY24, with cement capacity of 2.5mt by Q2FY25.
- **Leverage guidance maintained:** JKLC maintained its guidance of peak net debt-to-EBITDA of 3.4-3.5x during the capex phase and expects to hold within this level even after any potential acquisitions, albeit with scope for intermittent deviations. Management highlighted that the higher leverage was targeted at inorganic growth.
- **Limited impact from Sanghi Industries deal:** Management does not expect ACEM's acquisition of Sanghi Industries to impact its operations much as capacity expansion at the latter will mainly serve the Gujarat market where it believes demand is strong enough to absorb the additional volumes. JKLC also does not expect the deal to have a material impact on pricing.

Valuation methodology

We maintain our SELL rating on JKLC for an unchanged TP of Rs 551, valuing the stock at an unchanged multiple of 8x FY25E EV/EBITDA (currently trading at ~9.3x). We believe the company's willingness to take net debt-to-EBITDA beyond ~3x from the current ~2.5x will add risk to the balance sheet and leave it vulnerable should the business cycle turn unfavourable. Operating efficiencies could also prove more challenging to eke out in the near term as ACEM's acquisition of Sanghi Industries is likely to sharpen competition in the remunerative Gujarat market.

Fig 1 – Key assumptions

| Parameter | FY22 | FY23 | FY24E | FY25E |
|-------------------------|-------|-------|-------|-------|
| Volumes (mt) | 10.3 | 10.8 | 12.2 | 13.4 |
| Realisations (Rs/mt) | 4,494 | 5,386 | 5,510 | 5,538 |
| Operating costs (Rs/mt) | 4,132 | 4,951 | 4,877 | 4,789 |
| EBITDA/mt (Rs) | 781 | 648 | 644 | 713 |

Source: Company, BOBCAPS Research

Fig 2 – Valuation summary

| (Rs mn) | FY25E |
|------------------------------|--------|
| Target EV/EBITDA (x) | 8 |
| EBITDA | 9,558 |
| Target EV | 76,466 |
| Total EV | 76,466 |
| Net debt | 11,104 |
| Target market capitalization | 65,362 |
| Target price (Rs/sh) | 551 |
| Weighted average shares (mn) | 118 |

Source: BOBCAPS Research

Key risks

Key upside risks to our estimates are:

- above-estimated volume and realisation gains backed by a strong demand uptick, and
- faster-than-expected cooling off of key fuel costs, lending a boost to margins.

Sector recommendation snapshot

| Company | Ticker | Market Cap (US\$ bn) | Price (Rs) | Target (Rs) | Rating |
|-------------------|-------------|----------------------|------------|-------------|--------|
| ACC | ACC IN | 4.7 | 2,042 | 1,964 | HOLD |
| Ambuja Cements | ACEM IN | 10.6 | 439 | 435 | HOLD |
| Dalmia Bharat | DALBHARA IN | 5.2 | 2,288 | 1,934 | HOLD |
| JK Cement | JKCE IN | 3.1 | 3,331 | 3,474 | HOLD |
| JK Lakshmi Cement | JKLC IN | 1.0 | 689 | 551 | SELL |
| Orient Cement | ORCMNT IN | 0.5 | 192 | 140 | HOLD |
| Shree Cement | SRCM IN | 11.3 | 25,739 | 24,656 | HOLD |
| The Ramco Cements | TRCL IN | 2.6 | 902 | 585 | SELL |
| Ultratech Cement | UTCEM IN | 29.8 | 8,495 | 9,396 | HOLD |

Source: BOBCAPS Research, NSE | Price as of 7 Sep 2023

Financials

Income Statement

| Y/E 31 Mar (Rs mn) | FY21A | FY22A | FY23A | FY24E | FY25E |
|----------------------------|---------------|---------------|---------------|---------------|---------------|
| Total revenue | 43,847 | 50,408 | 60,711 | 67,356 | 73,729 |
| EBITDA | 7,898 | 8,013 | 7,043 | 7,869 | 9,555 |
| Depreciation | (1,942) | (1,905) | (1,935) | (1,973) | (2,289) |
| EBIT | 6,700 | 6,780 | 5,730 | 6,733 | 8,124 |
| Net interest inc./(exp.) | (1,425) | (963) | (915) | (884) | (1,038) |
| Other inc./(exp.) | 745 | 673 | 622 | 837 | 858 |
| Exceptional items | (309) | (234) | 0 | 0 | 0 |
| EBT | 4,966 | 5,583 | 4,815 | 5,849 | 7,086 |
| Income taxes | (1,328) | (1,321) | (1,507) | (1,974) | (2,378) |
| Extraordinary items | 0 | 0 | 0 | 0 | 0 |
| Min. int./Inc. from assoc. | 0 | 0 | 0 | 0 | 0 |
| Reported net profit | 3,638 | 4,262 | 3,308 | 3,875 | 4,708 |
| Adjustments | 309 | 234 | 0 | 0 | 0 |
| Adjusted net profit | 3,947 | 4,496 | 3,308 | 3,875 | 4,708 |

Balance Sheet

| Y/E 31 Mar (Rs mn) | FY21A | FY22A | FY23A | FY24E | FY25E |
|---------------------------------|---------------|---------------|---------------|---------------|---------------|
| Accounts payables | 10,764 | 7,658 | 7,841 | 14,831 | 15,648 |
| Other current liabilities | 6,315 | 7,046 | 8,724 | 9,026 | 9,296 |
| Provisions | 201 | 267 | 156 | 668 | 720 |
| Debt funds | 7,904 | 7,953 | 5,846 | 11,921 | 16,720 |
| Other liabilities | 641 | 943 | 1,596 | 170 | 198 |
| Equity capital | 588 | 588 | 588 | 588 | 588 |
| Reserves & surplus | 20,209 | 23,419 | 26,649 | 30,008 | 34,166 |
| Shareholders' fund | 20,797 | 24,523 | 27,949 | 30,596 | 34,754 |
| Total liab. and equities | 46,622 | 48,390 | 52,112 | 67,213 | 77,336 |
| Cash and cash eq. | 7,270 | 8,869 | 8,450 | 12,615 | 9,297 |
| Accounts receivables | 537 | 345 | 605 | 1,753 | 2,121 |
| Inventories | 3,155 | 4,912 | 7,004 | 7,289 | 8,383 |
| Other current assets | 2,932 | 2,003 | 4,190 | 4,554 | 5,009 |
| Investments | 3,833 | 3,899 | 4,141 | 4,196 | 4,253 |
| Net fixed assets | 26,371 | 27,134 | 26,943 | 27,168 | 40,125 |
| CWIP | 2,451 | 1,127 | 649 | 9,500 | 8,000 |
| Intangible assets | 72 | 103 | 129 | 137 | 148 |
| Deferred tax assets, net | 0 | 0 | 0 | 0 | 0 |
| Other assets | 0 | 0 | 0 | 0 | 0 |
| Total assets | 46,621 | 48,390 | 52,112 | 67,213 | 77,336 |

Cash Flows

| Y/E 31 Mar (Rs mn) | FY21A | FY22A | FY23A | FY24E | FY25E |
|------------------------------------|----------------|----------------|----------------|-----------------|-----------------|
| Cash flow from operations | 7,992 | 3,537 | 2,861 | 10,430 | 6,247 |
| Capital expenditures | (1,180) | (1,386) | (1,049) | (11,057) | (13,757) |
| Change in investments | 352 | (1,867) | 136 | 47 | (1,057) |
| Other investing cash flows | 0 | 0 | 0 | 0 | 0 |
| Cash flow from investing | (828) | (3,253) | (913) | (11,010) | (14,814) |
| Equities issued/Others | 0 | 516 | 196 | (712) | 0 |
| Debt raised/repaid | (3,926) | 49 | (2,107) | 6,075 | 4,799 |
| Interest expenses | 0 | 0 | 0 | 0 | 0 |
| Dividends paid | (441) | (441) | 0 | (441) | (471) |
| Other financing cash flows | 473 | (609) | (78) | (74) | (79) |
| Cash flow from financing | (3,894) | (486) | (1,989) | 4,848 | 4,249 |
| Chg in cash & cash eq. | 3,270 | (202) | (41) | 4,267 | (4,318) |
| Closing cash & cash eq. | 7,270 | 8,869 | 8,449 | 12,615 | 9,297 |

Per Share

| Y/E 31 Mar (Rs) | FY21A | FY22A | FY23A | FY24E | FY25E |
|----------------------|-------|-------|-------|-------|-------|
| Reported EPS | 30.9 | 36.2 | 28.1 | 32.9 | 40.0 |
| Adjusted EPS | 33.5 | 38.2 | 28.1 | 32.9 | 40.0 |
| Dividend per share | 3.8 | 3.8 | 0.0 | 3.8 | 4.0 |
| Book value per share | 176.7 | 208.4 | 237.5 | 260.0 | 295.3 |

Valuations Ratios

| Y/E 31 Mar (x) | FY21A | FY22A | FY23A | FY24E | FY25E |
|----------------|-------|-------|-------|-------|-------|
| EV/Sales | 1.9 | 1.6 | 1.3 | 1.2 | 1.2 |
| EV/EBITDA | 10.3 | 10.0 | 11.1 | 10.2 | 9.3 |
| Adjusted P/E | 20.5 | 18.0 | 24.5 | 20.9 | 17.2 |
| P/BV | 3.9 | 3.3 | 2.9 | 2.6 | 2.3 |

DuPont Analysis

| Y/E 31 Mar (%) | FY21A | FY22A | FY23A | FY24E | FY25E |
|------------------------------|-------------|-------------|-------------|-------------|-------------|
| Tax burden (Net profit/PBT) | 73.3 | 76.3 | 68.7 | 66.2 | 66.4 |
| Interest burden (PBT/EBIT) | 78.7 | 85.8 | 84.0 | 86.9 | 87.2 |
| EBIT margin (EBIT/Revenue) | 15.3 | 13.5 | 9.4 | 10.0 | 11.0 |
| Asset turnover (Rev./Avg TA) | 95.2 | 106.1 | 120.8 | 112.9 | 102.0 |
| Leverage (Avg TA/Avg Equity) | 2.4 | 2.1 | 1.9 | 2.0 | 2.2 |
| Adjusted ROAE | 20.4 | 19.6 | 12.6 | 13.2 | 14.4 |

Ratio Analysis

| Y/E 31 Mar | FY21A | FY22A | FY23A | FY24E | FY25E |
|--|------------|------------|------------|------------|------------|
| YoY growth (%) | | | | | |
| Revenue | 8.4 | 15.0 | 20.4 | 10.9 | 9.5 |
| EBITDA | 17.5 | 1.5 | (12.1) | 11.7 | 21.4 |
| Adjusted EPS | 48.7 | 13.9 | (26.4) | 17.1 | 21.5 |
| Profitability & Return ratios (%) | | | | | |
| EBITDA margin | 18.0 | 15.9 | 11.6 | 11.7 | 13.0 |
| EBIT margin | 15.3 | 13.5 | 9.4 | 10.0 | 11.0 |
| Adjusted profit margin | 9.0 | 8.9 | 5.4 | 5.8 | 6.4 |
| Adjusted ROAE | 20.4 | 19.6 | 12.6 | 13.2 | 14.4 |
| ROCE | 22.9 | 21.6 | 16.7 | 17.2 | 17.2 |
| Working capital days (days) | | | | | |
| Receivables | 4 | 2 | 4 | 10 | 11 |
| Inventory | 26 | 36 | 42 | 40 | 42 |
| Payables | 109 | 66 | 53 | 91 | 89 |
| Ratios (x) | | | | | |
| Gross asset turnover | 1.2 | 1.3 | 1.5 | 1.6 | 1.3 |
| Current ratio | 0.8 | 1.1 | 1.2 | 1.1 | 1.0 |
| Net interest coverage ratio | 4.7 | 7.0 | 6.3 | 7.6 | 7.8 |
| Adjusted debt/equity | 0.4 | 0.3 | 0.2 | 0.4 | 0.5 |

Source: Company, BOBCAPS Research | Note: TA = Total Assets

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SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

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Ratings and Target Price (3-year history): JK LAKSHMI CEMENT (JKLC IN)



B – Buy, H – Hold, S – Sell, A – Add, R – Reduce

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