BOBCAPS
TRUST | INNOVATION | EXCELLENCE

SELL
TP: Rs 551 | ∀ 10%

JK LAKSHMI CEMENT | Cement | 01 August 2023

Another slow quarter; maintain SELL

- **Tepid volume growth of 5% YoY with little support from realisations kept Q1 revenue growth muted**
- **EBITDA margin dropped 370bps YoY to 10% as costs spiralled and realisations remained under pressure**
- **Retain SELL with an unchanged TP of Rs 551**

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Topline growth muted: JKLC reported slow 5% YoY (-6% QoQ) revenue growth to Rs 16.3bn in Q1FY24 as volumes grew only 5% (-5% QoQ) to 2.9mn tonnes (including clinker sales) and realisations stayed flat at Rs 5,351/t (-1% QoQ). Key markets such as Gujarat and Rajasthan saw adverse weather impacts and labour shortages in Q1 even as excess supply exerted pressure on prices.

Cost inflation continues, to turn favourable from H2: Operating cost increased 5% YoY (flat QoQ) to Rs 5,011/t as energy-adjusted raw material cost climbed 4% YoY to Rs 2,210/t on a higher base. Limited in-house clinker prompted higher l purchases from UCWL (+29% YoY). Logistics cost inched up 1% YoY to Rs 1,130/t due to the railway's introduction of a busy period surcharge for the entire year.

Margins dented: EBITDA declined 23% YoY (-11% QoQ) to Rs 1.7bn with 370bps contraction in margin to 10.3% due to the high-cost structure and tepid realisations. EBITDA/t decreased 26% YoY (-7% QoQ) to Rs 573/t and PAT dropped 26% YoY (-23% QoQ) to Rs 749mn. Management has set an ambitious EBITDA/t target of Rs 1,000 for FY25.

Expansion plans: Subsidiary UCWL's 1.5mt clinker unit is to be commissioned by Q3FY24 and its 2.5mt cement plant expansion by Q2FY25. Both projects are on track with trial runs of the clinker unit underway. JKLC aims to reach 18mt with the UCWL expansion and 30mt in phase II (via 3mt of brownfield expansion at Durg (Chhattisgarh) and 3mt at Udaipur (Rajasthan), along with 6mt of greenfield capacity, for which it has been allocated two mines in Nagaur (Rajasthan) and Kutch (Gujarat).

Maintain SELL: JKLC plans to fund its capex through debt and has passed an enabling resolution to raise borrowings of Rs 25bn. This will take the net debt/ EBITDA ratio to a peak of 4x, per management. We also expect margins to remain stressed given fierce competition in key markets. Factoring in these negatives, we maintain SELL and continue to value the stock at 8x FY25E EV/EBITDA for a TP of Rs 551 (unchanged). Our TP implies a replacement cost of Rs 6.6bn/mt, a 6% discount to the industry benchmark.

Key changes

Target	Rating
◀ ▶	◀ ▶

Ticker/Price	JKLC IN/Rs 609
Market cap	US$ 872.9mn
Free float	54%
3M ADV	US$ 2.4mn
52wk high/low	Rs 897/Rs 439
Promoter/FPI/DII	46%/14%/26%

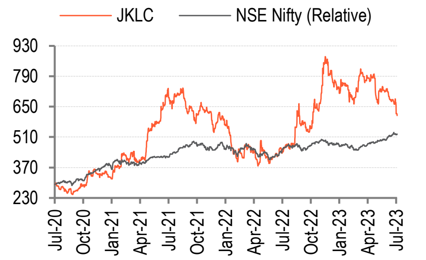
Source: NSE | Price as of 31 Jul 2023

Key financials

Y/E 31 Mar	FY23P	FY24E	FY25E
Total revenue (Rs mn)	60,711	67,356	73,729
EBITDA (Rs mn)	7,043	7,860	9,558
Adj. net profit (Rs mn)	3,307	3,876	4,708
Adj. EPS (Rs)	28.1	32.9	40.0
Consensus EPS (Rs)	28.1	44.2	51.1
Adj. ROAE (%)	12.8	13.4	14.4
Adj. P/E (x)	21.7	18.5	15.2
EV/EBITDA (x)	10.2	9.5	8.7
Adj. EPS growth (%)	(26.5)	17.2	21.5

Source: Company, Bloomberg, BOBCAPS Research | P – Provisional

Stock performance



Source: NSE

Fig 1 – Earnings call highlights

Parameter	Q1FY24	Q4FY23	Our view
Volumes and Realisations	Management indicated that Q1 was impacted by natural calamities and labour shortages in Gujarat and Rajasthan (accounting for 70% sales). JKLC had 97% clinker utilisation and 85% cement utilisation during the quarter. The company expects eastern market volumes to improve as it has received approval for a rail siding and conveyor belt at the Durg plant. Realisations were flat despite tepid volume growth.	Management expects cement volume growth of 19% for FY24.The clinker plant (1.5mt) is to be used for grinding units in the north to aid volume growth. Capacity utilisation stood at 89% in Q4FY23 vs. 77% in Q3FY23. Pricing pressure continues and the current price has remained flat to marginally lower. Q4 trade volume share was at 55%, blended share at 55%, and premium share at 11%.	JKLC will likely face severe competition to volume growth in key regions, including the west, north and east.
Margins	Power and fuel costs declined QoQ from Rs 2.42/kcal to Rs 2.23/kcal, but operating cost was higher as a WHRS facility broke down, requiring more grid power. Logistics cost also inched up. Management expects energy cost to decline to Rs 2.15/kcal in Q2FY24 as JKLC holds 100-days of inventory at these low prices, in tandem with lower logistics costs. Renewable power supply is guided to increase from October, providing a Rs 2.5/unit landed price discount to grid power. All of this should aid margins.	Fuel cost was at Rs 2.42/kcal in Q4, which management expects will reduce to Rs 2.31/kcal in Q1FY24. The fuel mix was 40% coal (domestic in eastern markets and imported in case of the north), 44% pet coke and 16% others. Management has EBITDA/t targets of Rs 800/Rs 1,000 for FY24/FY25 led by a better region & product mix and shift towards trade sales, logistics cost savings (Rs 70/t) on lower lead distance, and improving efficiencies (such as enhancing the thermal substitution rate from 4% to 16% in a phased manner at its Sirohi plant).	Cost benefits are likely to be negated if realisations are not supportive given severe competition from market giants such as UTCEM, ACEM and SRCM.
Capacity	WHRS capacity at the Sirohi plant in Rajasthan will add 3.5MW by Q4FY24-end. The clinkerisation plant at Udaipur Cement Works (UCWL) is under trial runs and is due to add 1.5mt of capacity by Q3FY24. Further, the 2.5mt expansion at UCWL is on track to be commissioned in Q2FY25.	Management is currently focused on brownfield expansion at Durg and will decide on UCWL in FY25. Land acquisition activities have begun for the greenfield projects at Nagaur and Kutch.	Capacity plans are necessary in the short term but look aggressive over the medium-to-long term and will only put further pressure on performance.
Capex	Management has guided for an annual capex budget of Rs 3bn-4.5bn for FY24.	Capex incurred for UCWL totals Rs 8.5bn to date (Rs 6.3bn in FY23). JKLC plans to incur Rs 2bn in FY24 and Rs 1.5bn in FY25, with the outlay for UCWL at Rs 5bn and Rs 3bn respectively.	Annual capex is likely to swell from FY25 onwards.
Other key points	JKLC has passed an enabling resolution to raise debt of Rs 25bn to fund ongoing projects. This is guided to raise net debt-to-EBITDA (currently at 1x) to 3.5-4x in the next two years. This apart, subsidiary UCWL recently completed a ~Rs 4.5bn rights issue to finance ongoing capex. Non-cement revenue was Rs 1.3bn in Q1, of which RMC made up Rs 630mn. EBITDA margin on non-cement business contracted QoQ from 5% to 4%. JKLC entered a partnership with a private company for the supply of 40MW of solar power for its Durg cement plant. After integration, 80% of energy for Durg will be renewable and JKLC's overall renewable mix will rise to 50%.	JKLC aims to have peak debt of Rs 15bn for UCWL and maximum net debt/EBITDA at 3-3.5x. The company is setting up a 100,000t putty plant in Alwar, Rajasthan, to start operations from Oct'23 at a capex of Rs 0.65bn-0.7bn. For Q4FY23, non-cement revenue was at Rs 1.3bn (RMC revenue at Rs 0.6bn). The Palanpur (outsourced) grinding unit has capacity of 15-20k/t per month.	Higher leverage at 3-4x can pose a risk.

Source: Company, BOBCAPS Research \| RMC: Ready Mix Concrete; WHRS: Waste Heat Recovery System

Fig 2 – Key metrics

(Rs mn)	Q1FY24	Q1FY23	YoY (%)	Q4FY23	QoQ (%)
Volumes (mn mt)	2.93	2.79	5.0	3.06	(4.5)
Cement realisations (Rs/mt)	5,351	5,370	(0.3)	5,422	(1.3)
Operating costs (Rs/mt)	5,011	4,788	4.7	5,027	(0.3)
EBITDA/mt (Rs)	573	779	(26.4)	617	(7.2)

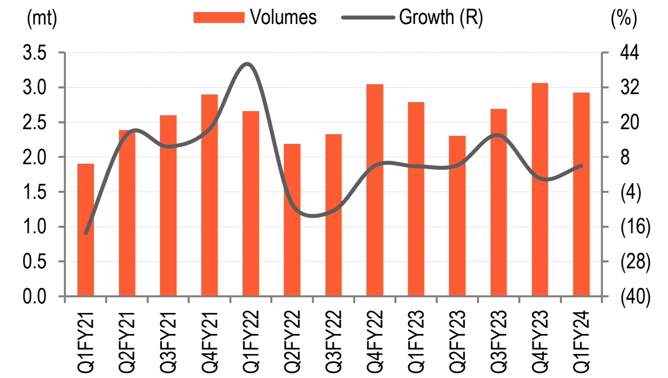
Source: Company, BOBCAPS Research

Fig 3 – Quarterly performance

(Rs mn)	Q1FY24	Q1FY23	YoY (%)	Q4FY23	QoQ (%)
Net Sales	**16,333**	**15,510**	**5.3**	**17,289**	**(5.5)**
Expenditure					
Change in stock	347	13	2,679.2	734	(52.6)
Raw material	2,409	2,270	6.1	2,351	2.5
Purchased products	2,095	1,543	35.8	2,053	2.0
Power & fuel	3,708	3,660	1.3	4,103	(9.6)
Freight	3,305	3,120	5.9	3,530	(6.4)
Employee costs	976	922	5.8	860	13.5
Other expenses	1,818	1,813	0.2	1,768	2.8
Total Operating Expenses	14,657	13,340	9.9	15,398	(4.8)
EBITDA	**1,676**	**2,170**	**(22.8)**	**1,891**	**(11.4)**
EBITDA margin (%)	10.3	14.0	(373bps)	10.9	(68bps)
Other Income	139	74	86.9	178	(22.0)
Interest	229	247	(7.2)	195	17.5
Depreciation	470	473	(0.7)	501	(6.2)
PBT	1,115	1,524	(26.8)	1,373	(18.8)
Non-recurring items	0	0	0.0	0	0.0
PBT (after non-recurring items)	1,115	1,524	(26.8)	1,373	(18.8)
Tax	366	515	(28.8)	400	(8.3)
Tax Rate (%)	33	34	(92bps)	29	375bps
Reported PAT	749	1,009	(25.8)	973	(23.1)
Adjusted PAT	**749**	**1,009**	**(25.8)**	**973**	**(23.1)**
NPM (%)	4.6	6.5	(192bps)	5.6	(104bps)
Adjusted EPS (Rs)	**6.4**	**8.6**	**(25.8)**	**8.3**	**(23)**

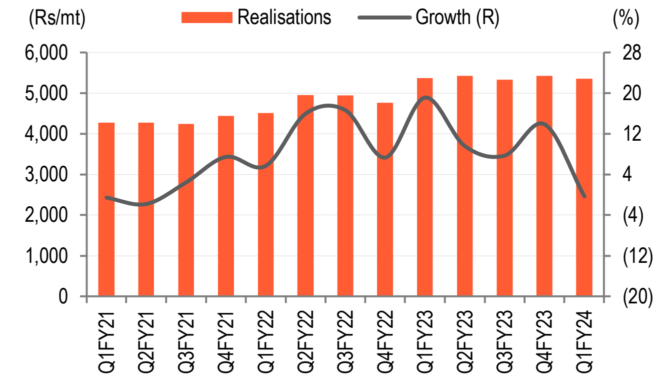
Source: Company, BOBCAPS Research

Fig 4 – Weather impact in key regions limited Q1FY24 volume growth



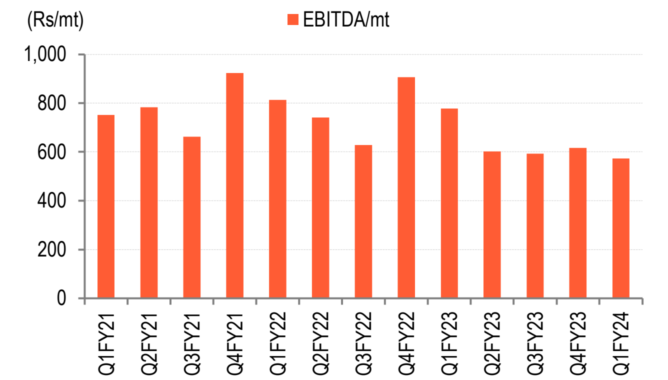
Source: Company, BOBCAPS Research

Fig 5 – Realisations listless



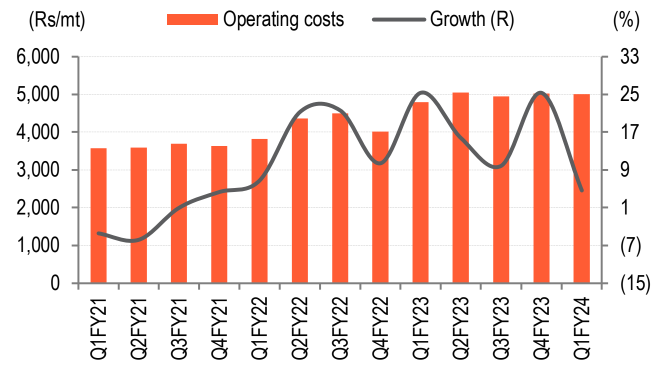
Source: Company, BOBCAPS Research

Fig 6 – EBITDA/t down 26% YoY…



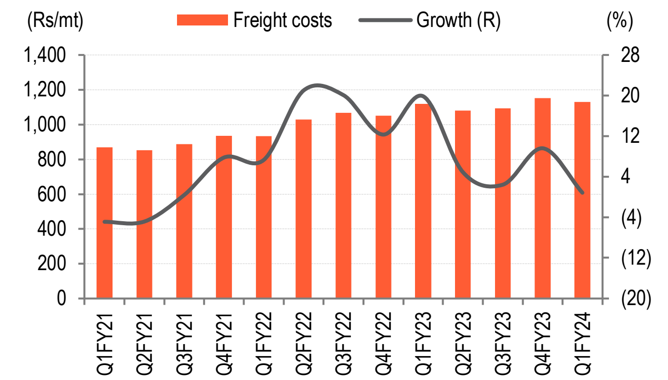
Source: Company, BOBCAPS Research

Fig 7 – …as costs remained inflated



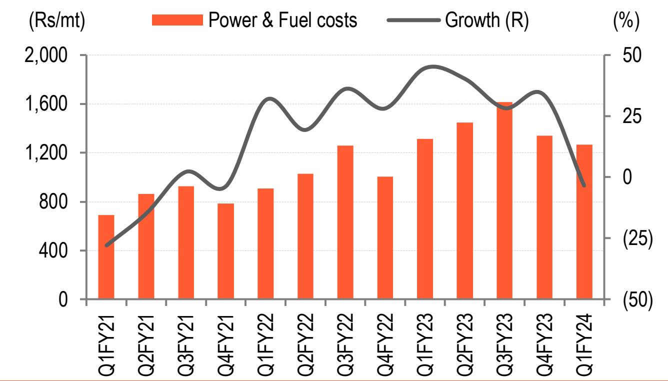
Source: Company, BOBCAPS Research

Fig 8 – Surcharge, high fuel cost pushed up logistics cost



Source: Company, BOBCAPS Research

Fig 9 – Energy cost offers some respite



Source: Company, BOBCAPS Research

Valuation methodology

JKCL has guided for an annual capex budget of Rs 3bn-4.5bn for FY24 and expansionary capex mode from FY25 onward. The company plans to fund this outlay through debt and has passed an enabling resolution to raise borrowings of Rs 25bn. This will take the net debt/ EBITDA ratio to a peak of 4x in the next two years, per management. Not only could this pose a risk to balance sheet health, but past experience also suggests that the company's capex execution has been less than ideal, typically marred by delays (both inhouse and at subsidiary UCWL).

We also expect margins to remain stressed given fierce competition in key markets. In our view, management's EBITDA/t targets of Rs 800/Rs 1,000 for FY24/FY25 look aggressive and we instead pen in estimates of Rs 644/Rs 713.

Factoring in the negatives, we maintain our SELL rating and continue to value the stock at 8x FY25E EV/EBITDA for a TP of Rs 551 (unchanged). Our TP implies a replacement cost of Rs 6.6bn/mt, a 6% discount to the industry benchmark.

Fig 10 – 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 11 – 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: Company, BOBCAPS Research

Key risks

Key upside risks to our estimates are:

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

Fig 12 – Peer comparison

Ticker	Rating	Target Price (Rs)	EV/EBITDA (x)			EV/tonne (US$)			ROE (%)			ROCE (%)		
			FY23	FY24E	FY25E	FY23	FY24E	FY25E	FY23	FY24E	FY25E	FY23	FY24E	FY25E
JKLC IN	SELL	551	10.1	9.5	8.7	81	84	93	12.8	13.4	14.4	16.2	17.3	17.2
JKCE IN	BUY	3,371	20.6	16.2	11.7	156	153	150	12.6	17.3	20.4	12.4	16.6	19.8
TRCL IN	SELL	585	22.0	17.1	14.4	139	138	139	4.6	7.1	8.8	5.8	7.8	9.2

Source: Company, BOBCAPS Research

Sector recommendation snapshot

Company	Ticker	Market Cap (US$ bn)	Price (Rs)	Target (Rs)	Rating
ACC	ACC IN	4.6	2,018	1,964	HOLD
Ambuja Cements	ACEM IN	11.2	463	375	HOLD
Dalmia Bharat	DALBHARA IN	4.4	1,954	1,917	HOLD
JK Cement	JKCE IN	3.1	3,275	3,474	HOLD
JK Lakshmi Cement	JKLC IN	0.9	609	551	SELL
Orient Cement	ORCMNT IN	0.4	147	140	HOLD
Shree Cement	SRCM IN	10.6	24,108	24,656	HOLD
Star Cement	STRCEM IN	0.7	145	146	BUY
The Ramco Cements	TRCL IN	2.5	886	585	SELL
Ultratech Cement	UTCEM IN	29.2	8,318	9,396	HOLD

Source: BOBCAPS Research, NSE | Price as of 31 Jul 2023

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23P	FY24E	FY25E
Total revenue	**43,847**	**50,408**	**60,711**	**67,356**	**73,729**
EBITDA	7,898	8,013	7,043	7,860	9,558
Depreciation	(1,942)	(1,905)	(1,935)	(1,992)	(2,303)
EBIT	6,700	6,780	5,729	6,704	8,113
Net interest inc./(exp.)	(1,425)	(963)	(915)	(854)	(1,027)
Other inc./(exp.)	745	673	621	837	858
Exceptional items	(309)	(234)	0	0	0
EBT	4,966	5,583	4,814	5,851	7,086
Income taxes	(1,328)	(1,321)	(1,507)	(1,975)	(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**	**3,307**	**3,876**	**4,708**
Adjustments	309	234	0	0	0
Adjusted net profit	**3,947**	**4,496**	**3,307**	**3,876**	**4,708**

Balance Sheet

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23P	FY24E	FY25E
Accounts payables	10,764	7,658	13,380	14,833	15,647
Other current liabilities	6,315	7,046	1,246	7,458	7,680
Provisions	201	267	177	760	821
Debt funds	7,904	7,953	8,447	9,525	18,814
Other liabilities	641	943	1,596	170	198
Equity capital	588	588	588	588	588
Reserves & surplus	20,209	23,419	26,683	30,043	34,201
Shareholders' fund	20,797	24,523	27,267	30,632	34,790
Total liab. and equities	**46,622**	**48,390**	**52,111**	**63,377**	**77,950**
Cash and cash eq.	7,270	8,869	8,642	6,759	7,710
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	3,738	6,547	7,202
Investments	3,833	3,899	3,948	3,998	4,049
Net fixed assets	26,371	27,134	27,210	27,416	40,359
CWIP	2,451	1,127	857	9,500	8,000
Intangible assets	72	103	108	116	127
Deferred tax assets, net	0	0	0	0	0
Other assets	0	0	0	0	0
Total assets	**46,621**	**48,390**	**52,112**	**63,377**	**77,950**

Cash Flows

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23P	FY24E	FY25E
Cash flow from operations	**7,992**	**3,537**	**1,645**	**8,448**	**6,020**
Capital expenditures	(1,180)	(1,386)	(1,753)	(10,849)	(13,757)
Change in investments	352	(1,867)	136	245	(1,051)
Other investing cash flows	0	0	0	0	0
Cash flow from investing	**(828)**	**(3,253)**	**(1,616)**	**(10,604)**	**(14,808)**
Equities issued/Others	0	516	(521)	5	0
Debt raised/repaid	(3,926)	49	494	1,079	9,289
Interest expenses	0	0	0	0	0
Dividends paid	(441)	(441)	(441)	(441)	(471)
Other financing cash flows	473	(609)	399	(74)	(79)
Cash flow from financing	**(3,894)**	**(486)**	**(70)**	**568**	**8,739**
Chg in cash & cash eq.	**3,270**	**(202)**	**(42)**	**(1,588)**	**(48)**
Closing cash & cash eq.	**7,270**	**8,869**	**8,642**	**6,759**	**7,710**

Per Share

Y/E 31 Mar (Rs)	FY21A	FY22A	FY23P	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	3.8	3.8	4.0
Book value per share	176.7	208.4	231.7	260.3	295.6

Valuations Ratios

Y/E 31 Mar (x)	FY21A	FY22A	FY23P	FY24E	FY25E
EV/Sales	1.7	1.4	1.2	1.1	1.1
EV/EBITDA	9.2	8.8	10.2	9.5	8.7
Adjusted P/E	18.2	16.0	21.7	18.5	15.2
P/BV	3.4	2.9	2.6	2.3	2.1

DuPont Analysis

Y/E 31 Mar (%)	FY21A	FY22A	FY23P	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	87.3	87.3
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	116.6	104.3
Leverage (Avg TA/Avg Equity)	2.4	2.1	1.9	2.0	2.2
Adjusted ROAE	20.4	19.6	12.8	13.4	14.4

Ratio Analysis

Y/E 31 Mar	FY21A	FY22A	FY23P	FY24E	FY25E
YoY growth (%)					
Revenue	8.4	15.0	20.4	10.9	9.5
EBITDA	17.5	1.5	(12.1)	11.6	21.6
Adjusted EPS	48.7	13.9	(26.5)	17.2	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	12.8	13.4	14.4
ROCE	22.9	21.6	16.2	17.3	17.2
Working capital days (days)					
Receivables	4	2	4	10	11
Inventory	26	36	42	40	42
Payables	109	66	91	91	89
Ratios (x)					
Gross asset turnover	1.2	1.3	1.5	1.5	1.2
Current ratio	0.8	1.1	1.4	1.0	1.1
Net interest coverage ratio	4.7	7.0	6.3	7.9	7.9
Adjusted debt/equity	0.4	0.3	0.3	0.3	0.5

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

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Recommendation scale: Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

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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