RESULT REVIEW

SELL
TP: Rs 551 | ∀ 29%

JK LAKSHMI CEMENT | Cement | 07 November 2023

Some respite but challenges continue

- **Q2 topline grew 12% YoY led by ~10% volume growth; realisation flat due to price hikes in eastern region**
- **Cost benefit marginal as 4% savings on fuel (raw material adjusted) were offset by higher logistics and inter-unit purchases**
- **Maintain SELL for a TP of Rs 551 (unchanged) as long-term challenges continue**

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Volumes support topline: JKLC reported 12% YoY (-11% QoQ) revenue growth to Rs 14.5bn in Q2FY24 as volumes grew 9.8% (-13% QoQ) to 2.5mn tonnes whereas realisations stayed flat YoY at Rs 5,500/t (+3% QoQ). Key markets such as Gujarat and Rajasthan saw adverse weather impacts due to floods in the early part of the quarter. Realisation gains QoQ came from a late spike in eastern market prices.

Cost respite marginal despite savings on fuel: Operating cost/tonne was flattish YoY at Rs 5,032/t despite energy-adjusted raw material cost falling by 4% to Rs 2,210/t on a higher base. Limited in-house clinker prompted purchases from UCWL (+4% YoY). Logistics cost jumped 4% YoY to Rs 1,125/t due to higher road transport and other expenditure increased 9% to ~Rs 1.6bn.

Margins improve off lower base: EBITDA increased 29% YoY (+7% QoQ) to Rs 1.8bn with 170bps improvement in margin to 12.3% mainly off a weak base. Similarly, EBITDA/t grew 17% YoY (+23% QoQ) to Rs 705/t and adj. PAT rose 40% YoY (+10% QoQ) to Rs 830mn. Management has set an ambitious EBITDA/t target of Rs 1,000/t in the medium term.

Expansion plans: Subsidiary UCWL's 1.5mt clinker unit was commissioned in Q2FY24 and its 2.5mt cement plant expansion is due in early FY25. JKLC is setting up an additional 1.35mt grinding unit at the Surat plant by H1FY26. It further plans 6mt of greenfield capacity, for which it has been allocated two mines in Nagaur (Rajasthan) and Kutch (Gujarat). The conveyor belt at the Durg plant is still awaiting clearance while the railway siding at the same location has received approvals.

Maintain SELL: Despite a respite in Q2, we believe long-term challenges continue for JKLC. The company plans to fund capex through debt and estimates that this will take the net debt/EBITDA ratio to a peak of 4x. We also expect competition in key markets to keep margins under pressure. 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.

Key changes

Target	Rating
◀ ▶	◀ ▶

Ticker/Price	JKLC IN/Rs 774
Market cap	US$ 1.1bn
Free float	54%
3M ADV	US$ 3.1mn
52wk high/low	Rs 897/Rs 607
Promoter/FPI/DII	46%/14%/26%

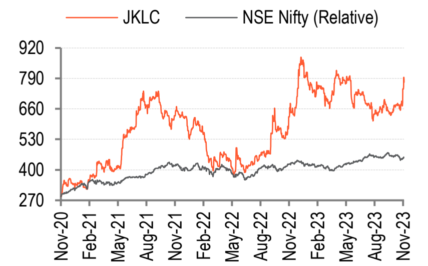
Source: NSE | Price as of 7 Nov 2023

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)	27.5	23.5	19.3
EV/EBITDA (x)	12.6	11.5	10.3
Adj. EPS growth (%)	(26.4)	17.1	21.5

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

Fig 1 – Earnings call highlights

Parameter	Q2FY24	Q1FY24	Our view
Volumes and Realisations	JKLC's sales volume grew 9.8% YoY to 2.5mt in Q2FY24. Management expects volume growth of 12-15% for FY24 (vs. 19% earlier), with 8-10% growth in the eastern region. JKLC had 100% clinker utilisation and 75% cement utilisation during Q2. Approval has been received for the railway siding and the company expects to commission it by Q2-Q3FY25. Approval is pending for the conveyor belt.	Management indicated that Q1FY24 was affected by natural calamities and labour shortages in Gujarat and Rajasthan (together 70% of sales). JKLC had 97% clinker utilisation and 85% cement utilisation in Q1. The company expects eastern market volumes to improve as it has received approval for a rail siding at the Durg plant. Realisations were flat despite tepid volume growth.	We expect JKLC to face severe competition, making it difficult to balance realisation gains and volume growth, as seen in H1FY24.
Margins	Power and fuel cost declined QoQ to Rs 2.04/kcal in Q2FY24 and management expects a further decline to ~Rs 1.9/kcal in Q3 with pet coke inventory at ~3 months in early November. Management expects cement prices to rise by Rs 50-100/bag QoQ in Q3FY24 given expected pricing improvement in the eastern, western and northern regions. EBITDA/t is guided at Rs 1,000 over the next 18-24 months.	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 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.	Cost benefits are likely to be negated if realisations are not supportive, given severe competition from market giants such as UTCEM, ACEM and SRCM. Management guidance of cement prices jump seems to be challenging.
Capacity	JKLC is setting up an additional 1.35mt grinding unit at the Surat plant and expects commissioning by H1FY26. Management aims to commission the 2.5mt grinding unit at subsidiary Udaipur Cement Works (UCWL) by Q4FY24/Q1FY25. The AAC plant at Aligarh has been commissioned with 75% capacity utilisation (~11k cubic metre per month). Set up of the Alwar putty plant has been delayed due to a construction ban in the NCR.	WHRS capacity at the Sirohi plant in Rajasthan will add 3.5MW of power supply by Q4FY24-end. The clinkerisation plant at UCWL is under trial 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.	Capacity expansion and cost saving initiatives must be expedited to maintain market share and margins.
Capex	Capex for JKLC and UCWL is guided at Rs 5bn and Rs 7bn respectively for FY24 (Rs 12bn consolidated). For FY25, capex is guided at Rs 5bn for JKLC and Rs 1bn for UCWL (Rs 6bn consolidated).	Management has guided for an annual capex budget of Rs 3bn-4.5bn for FY24.	Capex trajectory is likely to remain elevated to meet expansion plans.
Other key points	Management has applied for a performance-linked incentive (PLI) scheme for the upcoming 1.35mt grinding unit in Surat and awaits confirmation. Non-cement revenue was at Rs 1.3bn in Q2, of which RMC made up ~Rs 600mn, AAC ~Rs 500bn and POP ~Rs 200mn. In Oct'23, JKLC commenced sourcing of the 40MW solar power plant for its integrated unit at Durg, Chattisgarh, that will raise renewable power share at Durg plant to 80% (from 36%). It is also undertaking projects to enhance the TSR from 4% to 20% (target of 6% by end-FY24). The impact of the Sanghi Industries acquisition is yet to be felt in Gujarat markets, according to management.	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. 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%.	Higher leverage at 3-4x can pose a risk. The Sanghi Industries impact is likely to be felt at least partially from FY25 onwards.

Source: Company, BOBCAPS Research | AAC: Autoclaved Aerated Concrete POP – Plaster of Paris; NCR: National Capital Region; RMC: Ready Mix Concrete; TSR – Thermal Substitution Rate; WHRS: Waste Heat Recovery System

Fig 2 – Key metrics

(Rs mn)	Q2FY24	Q2FY23	YoY (%)	Q1FY24	QoQ (%)
Volumes (mn mt)	2.5	2.3	9.8	2.9	(13.4)
Cement realisations (Rs/mt)	5,532	5,426	2.0	5,351	3.4
Operating costs (Rs/mt)	5,032	5,050	(0.4)	5,011	0.4
EBITDA/mt (Rs)	705	601	17.3	573	23.1

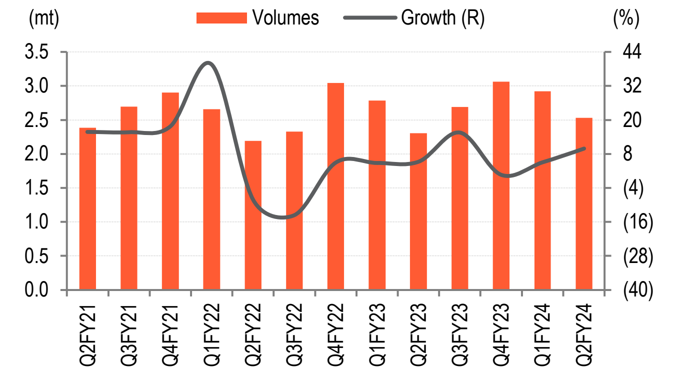
Source: Company, BOBCAPS Research

Fig 3 – Quarterly performance

(Rs mn)	Q2FY24	Q2FY23	YoY (%)	Q1FY24	QoQ (%)
Net Sales	**14,526**	**13,027**	**11.5**	**16,333**	**(11.1)**
Expenditure					
Change in stock	(245)	(342)	(28.4)	347	(170.4)
Raw material	2,196	2,175	1.0	2,409	(8.8)
Purchased products	1,944	1,698	14.5	2,095	(7.2)
Power & fuel	3,476	3,332	4.3	3,708	(6.3)
Freight	2,848	2,494	14.2	3,305	(13.8)
Employee costs	937	833	12.5	976	(4.0)
Other expenses	1,584	1,451	9.2	1,818	(12.8)
Total Operating Expenses	12,741	11,640	9.5	14,657	(13.1)
EBITDA	**1,785**	**1,386**	**28.8**	**1,676**	**6.5**
EBITDA margin (%)	12.3	10.6	165bps	10.3	203bps
Other Income	151	214	(29.5)	139	8.8
Interest	228	226	0.9	229	(0.5)
Depreciation	476	481	(1.0)	470	1.2
PBT	1,232	894	37.9	1,115	10.5
Non-recurring items	0	0	0.0	0	0.0
PBT (after non-recurring items)	1,232	894	37.9	1,115	10.5
Tax	402	304	32.2	366	9.7
Tax Rate (%)	33	34	(141bps)	33	(23bps)
Reported PAT	830	590	40.8	749	10.9
Adjusted PAT	**830**	**590**	**40.8**	**749**	**11**
NPM (%)	5.7	4.5	119bps	4.6	113bps
Adjusted EPS (Rs)	**7.1**	**5.0**	**40.8**	**6.4**	**11**

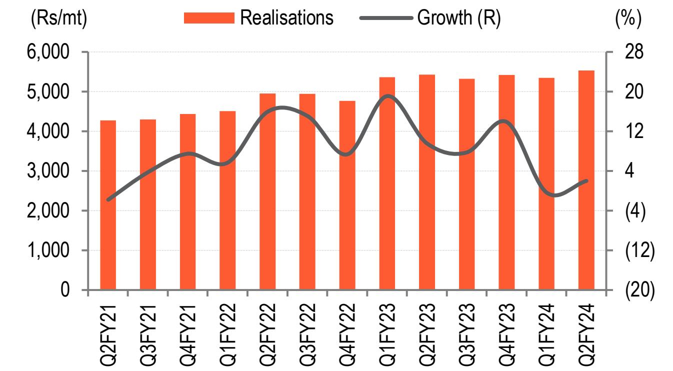
Source: Company, BOBCAPS Research

Fig 4 – Volume gains lag industry…



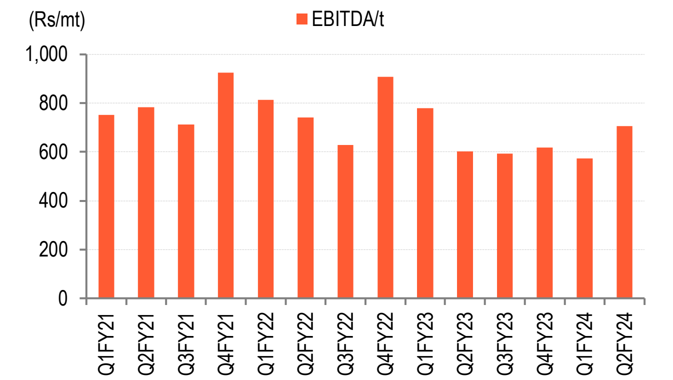
Source: Company, BOBCAPS Research

Fig 5 – …yet realisation gains stay tepid



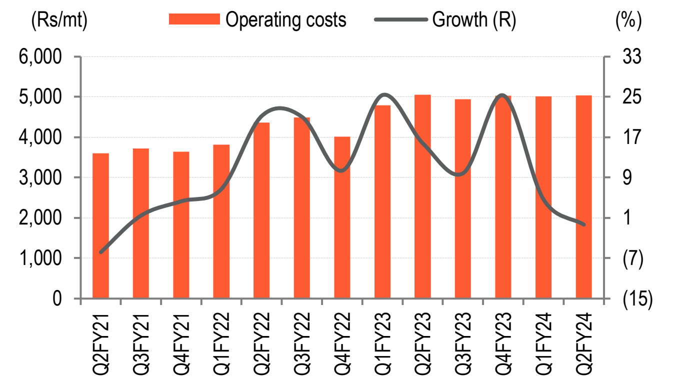
Source: Company, BOBCAPS Research

Fig 6 – EBITDA/t rises from a weak base



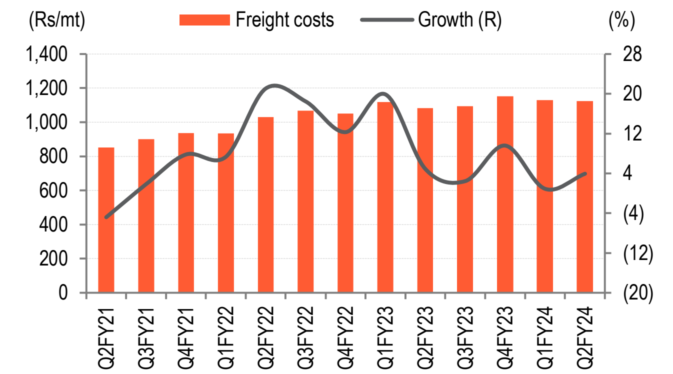
Source: Company, BOBCAPS Research

Fig 7 – Cost benefits remain limited



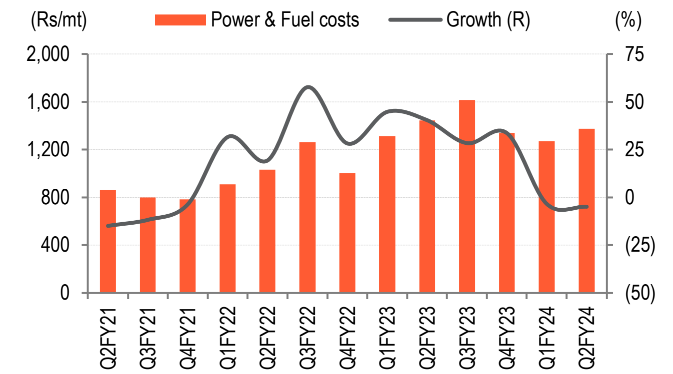
Source: Company, BOBCAPS Research

Fig 8 – Freight cost inflated despite lower lead distance



Source: Company, BOBCAPS Research

Fig 9 – Fuel cost savings can reverse in the medium term



Source: Company, BOBCAPS Research

Valuation methodology

Despite a respite in terms of volumes and margins during Q2FY24, we believe long-term challenges continue for JKLC. The company plans to fund capex through debt and has guided that this could take the net debt/EBITDA ratio to a peak of 4x. This apart, competition in key markets is likely to keep margins under pressure. We expect the realisation advantage in Gujarat due to the absence of competition from Sanghi Industries (SIL) to be negated by SIL's entry through ACEM.

Moreover, cost benefits from the Durg plant are likely to be deferred given the postponement of cost-saving measures such as the conveyor belt that continues to await clearance. We thus believe that management's EBIDTA/t guidance of Rs 1,000/t for the medium terms looks aggressive unless supported by strong pricing gains.

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.

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

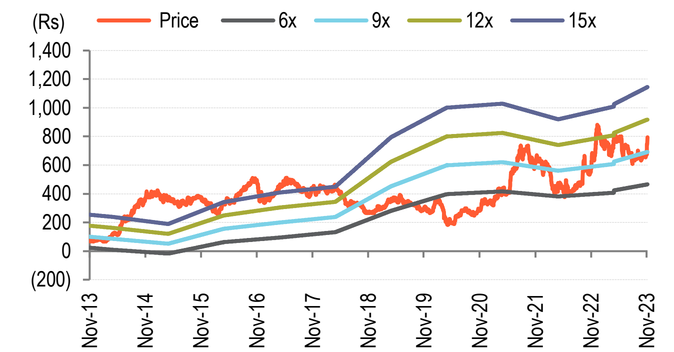
Source: BOBCAPS Research

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	HOLD	3,474	24.8	16.7	12.0	156	153	150	12.9	17.6	20.4	12.7	17.3	20.6
TRCL IN	SELL	585	24.9	18.7	15.8	139	138	139	5.2	7.1	8.8	5.8	7.8	9.2

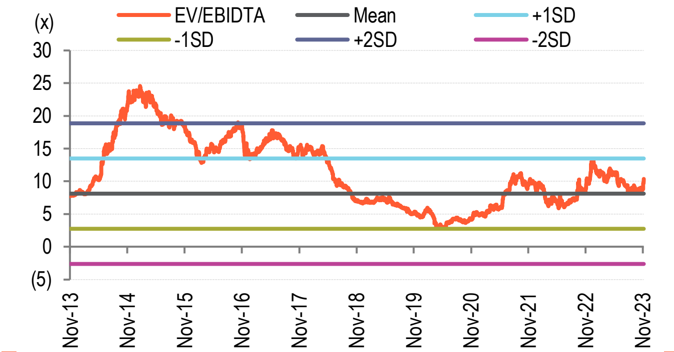
Source: BOBCAPS Research

Fig 13 – We value JKLC at 8x EV/EBITDA given its relative weak performance



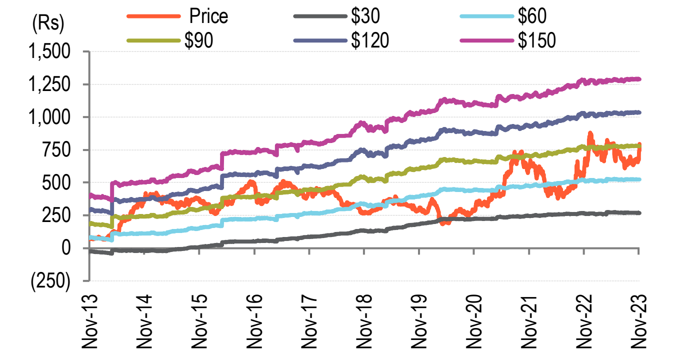
Source: Bloomberg, BOBCAPS Research

Fig 14 – Current valuations are elevated



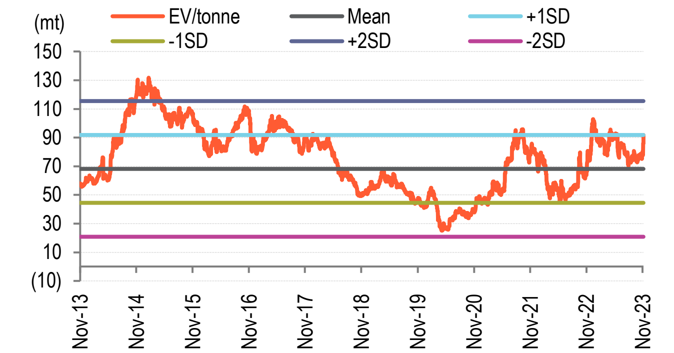
Source: Bloomberg, BOBCAPS Research

Fig 15 – Replacement cost to stay at discount



Source: Bloomberg, BOBCAPS Research

Fig 16 – Capacity expansion one of the key drivers for better valuations



Source: Bloomberg, BOBCAPS Research

Key risks

Key upside risks to our estimates are:

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

Sector recommendation snapshot

Company	Ticker	Market Cap (US$ bn)	Price (Rs)	Target (Rs)	Rating
ACC	ACC IN	4.3	1,864	2,158	BUY
Ambuja Cements	ACEM IN	10.2	421	449	HOLD
Dalmia Bharat	DALBHARA IN	4.7	2,100	2,286	HOLD
JK Cement	JKCE IN	3.2	3,403	3,474	HOLD
JK Lakshmi Cement	JKLC IN	1.1	774	551	SELL
Orient Cement	ORCMNT IN	0.5	208	128	SELL
Shree Cement	SRCM IN	11.6	26,401	25,731	HOLD
Star Cement	STRCEM IN	0.8	159	159	HOLD
The Ramco Cements	TRCL IN	2.9	1,006	585	SELL
Ultratech Cement	UTCEM IN	30.3	8,641	9,396	HOLD

Source: BOBCAPS Research, NSE | Price as of 7 Nov 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	2.1	1.8	1.5	1.3	1.3
EV/EBITDA	11.6	11.2	12.6	11.5	10.3
Adjusted P/E	23.1	20.2	27.5	23.5	19.3
P/BV	4.4	3.7	3.3	3.0	2.6

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

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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)

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