

SELL

TP: Rs 551 | ▼ 20%

JK LAKSHMI CEMENT

Cement

25 May 2023

Challenging road ahead

- Realisations led growth in Q4 while capacity constraints restricted volume gains (to 1% YoY)
- Cost inflation hurt operational efficiency; expect limited relief from Q1FY24 due to pricing pressure
- Valuations lofty; maintain SELL with an unchanged TP of Rs 551

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Realisation gains fuel YoY topline growth: JKLC reported 15%/16% YoY/QoQ revenue growth to Rs 17.3bn in Q4FY23. Volumes grew 1%/18% YoY/QoQ to 3.1mn tonnes (including clinker sales of 0.03mt) and realisations increased 15% YoY to Rs 5,644/t (but dipped 1% QoQ due to pricing pressure in key markets).

Cost inflation rises YoY, marginal improvement QoQ: Overall cost increased by 25% YoY and declined 2% QoQ to Rs 5,027/t as energy and raw material costs climbed 29%/1% YoY/QoQ to Rs 2,346/t. Logistics cost grew 10%/2% YoY/QoQ to Rs 1,152/t as the lead distance increased to 400km from 395km in Q4FY22 and 396kms in Q3FY23. Other expenditure was up 42% YoY (-2% QoQ) to Rs 1.8bn.

Margins remain under pressure: EBITDA declined 32% YoY (+19% QoQ) to Rs 1.9bn and operating margin plunged from 18.4% in the year-ago quarter to 10.9% due to high energy cost YoY. EBITDA/t decreased 32% YoY (+1% QoQ) to Rs 617/t and PAT dropped 50% YoY (+32% QoQ) to Rs 973mn. Management has an ambitious EBITDA/t target of Rs 800/Rs 1,000 for FY24/FY25.

Capacity expansion plans: UCWL's 1.5mt clinker unit is to be commissioned by Q3FY24 and the 2.5mt cement plant expansion at UCWL by Q2FY25. The company aims to reach 18mt with the UCWL expansion and 30mt in the next phase (via 3mt brownfield expansion at Durg (Chattisgarh) 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 continues to command premium valuations at 10.5x FY25E EV/EBITDA that have outrun earnings growth potential, in our view. Past experience also suggests that the company's capex execution has been less than ideal, typically leading to delays (in-house and at subsidiary UCWL as well). We maintain our SELL rating and continue to value the stock at 8x FY25E EV/EBITDA for an unchanged TP of Rs 551. 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 691
Market cap	US\$ 990.2mn
Free float	54%
3M ADV	US\$ 2.6mn
52wk high/low	Rs 897/Rs 383
Promoter/FPI/DII	46%/14%/26%

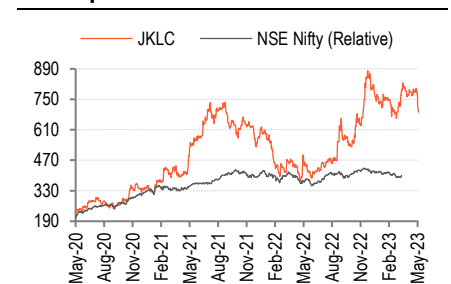
Source: NSE | Price as of 25 May 2023

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)	24.6	21.0	17.3
EV/EBITDA (x)	11.5	10.7	9.7
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	Q4FY23	Q3FY23	Our view
Volume and Realisation	<p>Management expects cement volume growth of 19% for FY24. The clinker plant (1.5mt) is to be utilised for grinding units in the northern region to aid volume growth.</p> <p>Capacity utilisation stood at 89% in Q4FY23 vs. 77% in Q3FY23.</p> <p>Pricing pressure continues and the current price has remained flat with a marginal drop in some regions.</p> <p>For Q4FY23, trade volume share was at 55%, blended share at 55%, and premium share at 11%.</p>	<p>Capacity utilisation in Q2 was 77% which increased to +85% in Q3FY23.</p> <p>Cement volume growth is targeted at 12% for FY23 and 12-15%, for FY24.</p> <p>Trade volume share stood at 54% in Q3, blended share at 66% and premium share at 11%.</p>	<p>Volume growth is likely to lag behind peers till the new capacities are commissioned. We also expect pricing pressure to keep a lid on margins.</p>
Margins	<p>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.</p> <p>Management has an EBITDA/t target of Rs 800/ Rs 1,000 for FY24/FY25 led by a better region/product-mix and shift towards trade sales, logistic cost savings (Rs 70/t contribution) on lower lead distance, and improving efficiencies (includes enhancing Thermal Substitution Rate from 4% to 16% in a phased manner at its Sirohi plant).</p>	<p>Total fuel cost in Q3FY23 was Rs 2.57/kcal against Rs 2.30/kcal, and management expects it to remain flat.</p> <p>EBITDA/t is targeted at Rs 1,000 for FY25, of which Rs 200+ is guided to come from topline levers, Rs 50 from manufacturing efficiencies and Rs 50 from the supply chain. This to be achieved in the next 18-24 months.</p>	<p>JKLC's EBITDA trajectory looks challenging unless supported by strong demand revival.</p>
Capacity	<p>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.</p>	<p>JKLC aims to add another 12mt and reach 30mt by 2030. Nagaur is the top priority followed by Durg (the latter could materialise before Nagaur if rail siding work is completed in the next 12-18 months, followed by Kutch)</p>	<p>Capacity addition and execution have been lagging for JKLC.</p>
Capex	<p>Capex incurred for UCWL totals Rs 8.5bn to date (Rs 6.3bn in FY23).</p> <p>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.</p>	<p>Capex incurred in Q3FY23 at the consolidated level was at Rs 2.5bn with Rs 2bn to be incurred in Q4FY23 and Rs 7bn in FY24.</p>	<p>Capex will further add to the debt burden in the initial years.</p>
Other key points	<p>JKLC aims to have peak debt of Rs 15bn for UCWL and maximum net debt/EBITDA at 3-3.5x.</p> <p>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.</p> <p>For Q4FY23, non-cement revenue was at Rs 1.3bn (RMC revenue Rs 0.6bn).</p> <p>Palanpur (outsourced) grinding unit is with capacity of 15-20k/t per month.</p>	<p>Barring Sirohi which is due for auction in 2030, management indicated that the rest of its plants have secured limestone mining leases.</p>	<p>JKLC's plans to venture into the white cement segment are aggressive.</p>

Source: Company, BOBCAPS Research

Fig 2 – Key metrics

(Rs mn)	Q4FY23	Q4FY22	YoY (%)	Q3FY23	QoQ (%)
Volumes (mn mt)	3.06	3.05	0.6	2.60	17.6
Cement realisations (Rs/mt)	5,644	4,918	14.8	5,716	(1.3)
Operating costs (Rs/mt)	5,027	4,011	25.3	5,103	(1.5)
EBITDA/mt (Rs)	617	907	(31.9)	613	0.7

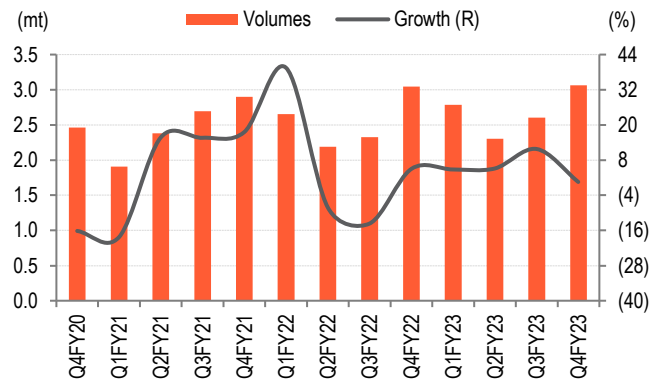
Source: Company, BOBCAPS Research

Fig 3 – Quarterly performance

(Rs mn)	Q4FY23	Q4FY22	YoY (%)	Q3FY23	QoQ (%)
Net Sales	17,289	14,976	15.4	14,885	16.1
Expenditure					
Change in stock	734	404	81.7	(736)	(199.6)
Raw material	2,351	2,099	12.0	2,461	(4.5)
purchased products	2,053	1,491	37.7	1,598	28.5
Power & fuel	4,103	3,054	34.4	4,345	(5.6)
Freight	3,530	3,200	10.3	2,942	20.0
Employee costs	860	721	19.2	877	(2.0)
Other expenses	1,768	1,245	42.0	1,802	(1.9)
Total Operating Expenses	15,398	12,214	26.1	13,289	15.9
EBITDA	1,891	2,762	(31.5)	1,596	18.5
EBITDA margin (%)	10.9	18.4	(751bps)	10.7	22bps
Other Income	178	176	0.9	156	14.0
Interest	195	219	(10.8)	247	(21.1)
Depreciation	501	507	(1.1)	480	4.4
PBT	1,373	2,213	(38.0)	1,025	34.0
Non-recurring items	0	(234)	0.0	0	0.0
PBT (after non-recurring items)	1,373	1,979	(30.6)	1,025	34.0
Tax	400	262	52.5	289	38.3
Tax Rate (%)	29	13	1587bps	28	92bps
Reported PAT	973	1,717	(43.3)	736	32.2
Adjusted PAT	973	1,951	(50.1)	736	32
NPM (%)	5.6	13.0	(740bps)	4.9	69bps
Adjusted EPS (Rs)	8.3	16.6	(50.1)	6.3	32

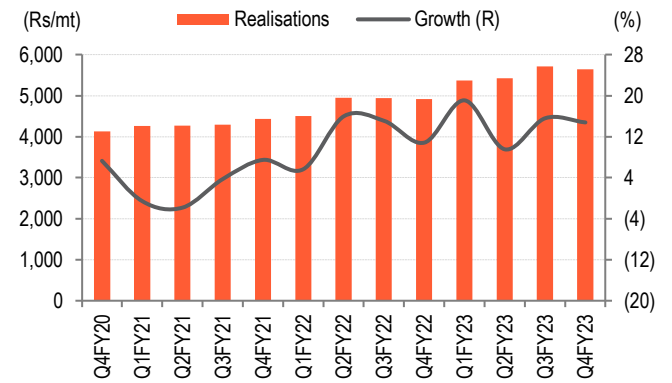
Source: Company, BOBCAPS Research

Fig 4 – Volume growth limited by capacity constraints



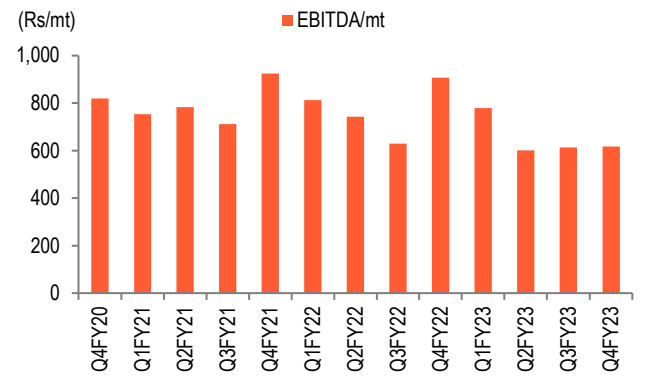
Source: Company, BOBCAPS Research

Fig 5 – Realisation gains may reverse in Q1FY24



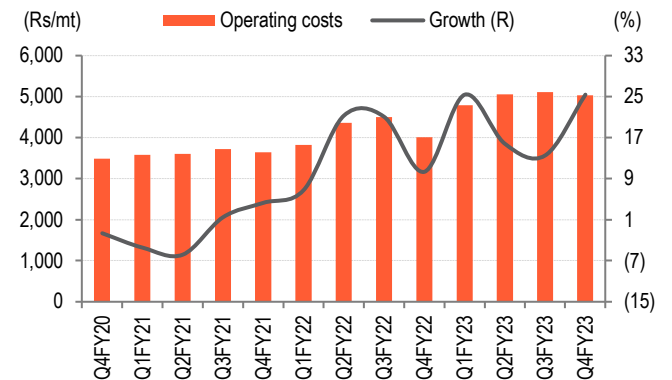
Source: Company, BOBCAPS Research

Fig 6 – EBITDA pressure continues



Source: Company, BOBCAPS Research

Fig 7 – Cost structure remains inflated



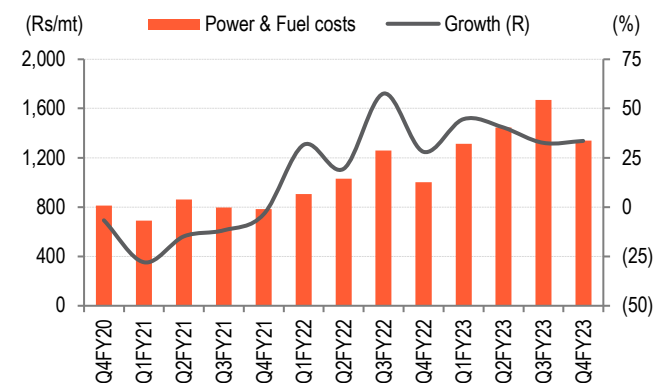
Source: Company, BOBCAPS Research

Fig 8 – Freight cost elevated



Source: Company, BOBCAPS Research

Fig 9 – Energy cost may offer some respite



Source: Company, BOBCAPS Research

Valuation methodology

JKLC continues to command premium valuations at 10.5x FY25E EV/EBITDA that have outrun earnings growth potential, in our view. We believe management's EBITDA/t targets of Rs 800/Rs1,000 for FY24/FY25 (vs. Rs 28.1 reported in FY23) look rather aggressive and instead bake in estimates of Rs32.9/Rs40. Past experience also suggests that the company's capex execution has been less than ideal, typically leading to delays (in-house and at subsidiary UCWL as well).

We maintain our SELL rating and continue to value the stock at 8x FY25E EV/EBITDA for an unchanged TP of Rs 551. Our TP implies a replacement cost of Rs 6.6bn/mt – a 6% discount to the industry benchmark.

Fig 10 – Revised estimates

(Rs mn)	New		Old		Change (%)	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Revenue	67,356	73,729	67,356	73,729	0.0	0.0
EBITDA	7,860	9,558	7,855	9,552	0.1	0.1
Adj PAT	3,876	4,708	3,874	4,708	0.1	0.0
Adj EPS	32.9	40.0	32.9	40.0	0.0	0.0

Source: BOBCAPS Research

Fig 11 – Key assumptions

Parameter	FY22	FY23	FY24E	FY25E
Volumes (mt)	10.3	10.8	12.2	13.4
Realisations (Rs/mt)	4,494	5,434	5,510	5,538
Operating costs (Rs/mt)	4,132	4,989	4,877	4,789
EBITDA/mt (Rs)	781	655	644	713

Source: Company, BOBCAPS Research

Fig 12 – 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

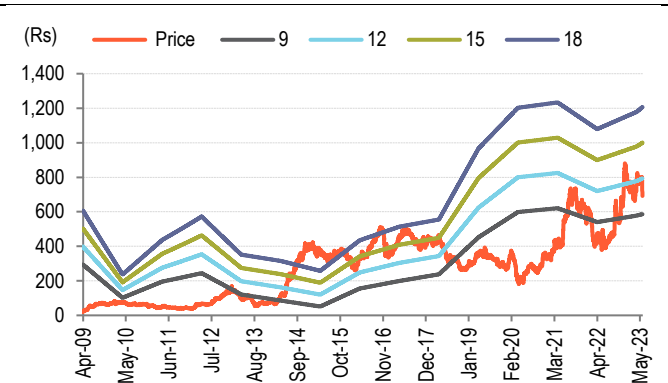
Source: BOBCAPS Research

Fig 13 – 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	11.5	10.7	9.7	81	84	93	12.8	13.4	14.4	16.2	17.3	17.2
JKCE IN	BUY	3,371	17.6	14.6	11.2	156	153	150	17.0	17.8	19.2	16.2	17.0	19.1
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

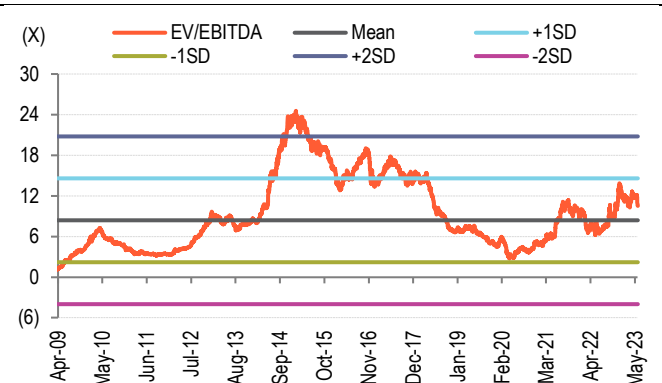
Source: BOBCAPS Research

Fig 14 – EV/EBITDA 1Y fwd



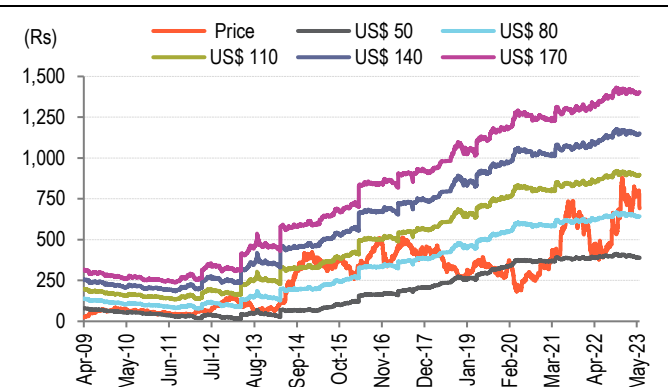
Source: Company, BOBCAPS Research

Fig 15 – EV/EBITDA SD band



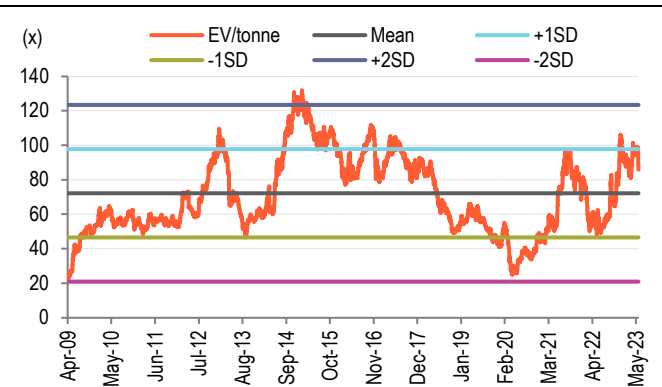
Source: Company, BOBCAPS Research

Fig 16 – EV/tonne



Source: Company, BOBCAPS Research

Fig 17 – EV/tonne SD band



Source: Company, BOBCAPS Research

Key risks

Key upside risks to our estimates are:

- Faster recovery in demand in key areas leading to better pricing
- Larger than expected cost benefits
- Better than expected capex execution

Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
ACC	ACC IN	4.1	1,778	1,964	HOLD
Ambuja Cements	ACEM IN	10.1	419	375	HOLD
Dalmia Bharat	DALBHARA IN	4.6	2,041	1,917	HOLD
JK Cement	JKCE IN	2.8	2,974	3,371	BUY
JK Lakshmi Cement	JKLC IN	1.0	691	551	SELL
Orient Cement	ORCMNT IN	0.3	127	140	HOLD
Shree Cement	SRCM IN	10.7	24,247	24,656	HOLD
Star Cement	STRCEM IN	0.7	134	146	BUY
The Ramco Cements	TRCL IN	2.5	883	585	SELL
Ultratech Cement	UTCEM IN	26.8	7,622	8,678	BUY

Source: BOBCAPS Research, NSE | Price as of 25 May 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	1.9	1.6	1.3	1.2	1.3
EV/EBITDA	10.4	10.0	11.5	10.7	9.7
Adjusted P/E	20.6	18.1	24.6	21.0	17.3
P/BV	3.9	3.3	3.0	2.7	2.3

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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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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