

**RESEARCH**
**JK LAKSHMI CEMENT | TARGET: Rs 551 | -20% | SELL**

AGM takeaways: Challenges persist; maintain SELL

**Daily macro indicators**

Indicator	6-Sep	7-Sep	Chg (%)
US 10Y yield (%)	4.28	4.24	(4bps)
India 10Y yield (%)	7.21	7.18	(3bps)
USD/INR	83.14	83.21	(0.1)
Brent Crude (US\$/bbl)	90.6	89.9	(0.8)
Dow	34,443	34,501	0.2
Hang Seng	18,450	18,202	(1.3)
Sensex	65,881	66,266	0.6
India FII (US\$ mn)	5-Sep	6-Sep	Chg (\$ mn)
FII-D	(96.3)	21.0	117.3
FII-E	(158.1)	(340.9)	(182.8)

Source: Bank of Baroda Economics Research

**SUMMARY**
**JK LAKSHMI CEMENT**

- 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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**SELL**

TP: Rs 551 | ▼ 20%

**JK LAKSHMI CEMENT**

Cement

08 September 2023

### AGM takeaways: Challenges persist; maintain SELL

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- **Maintains guidance of 30mt capacity expansion by 2030 and elevated net debt/EBITDA ratio of >3x during capex phase**
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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.

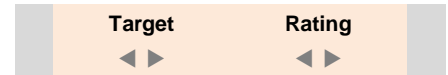
**Proposal to enhance borrowing via ICDs rejected:** JKLC also sought approval to raise inter-corporate deposits (ICD) close to four-fold from Rs 26bn to Rs 100bn at the AGM. However, the resolution received only 71.1% of shareholder votes, falling short of the minimum 75% threshold needed to pass it.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



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%

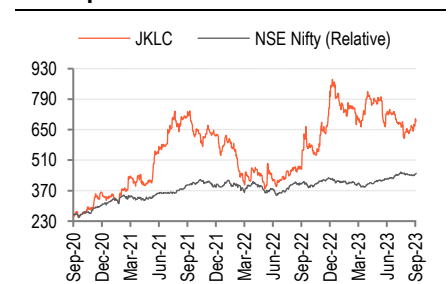
Source: NSE | Price as of 7 Sep 2023

### 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



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**BUY** – Expected return >+15%

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**Note:** Recommendation structure changed with effect from 21 June 2021

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