SELL
TP: Rs 661 | ∀ 14%

JK LAKSHMI CEMENT | Cement | 09 November 2024

Challenges galore leading to weak show; maintain SELL

- **Q2 revenue fell sharply by 21% YoY/QoQ each dragged by low volume growth, down 14%/20%, and weak realisations that fell by 9% YoY**
- **Operating cost fell ~2% to Rs 5,788/t aided by lower energy cost which provided little respite as EBITDA/t slipped to a low of Rs 330/t**
- **We value JKLC at 9x EV/EBITDA 1-year forward earnings (unchanged) with a new TP of Rs 661 (vs Rs 687) on revised earnings. Retain SELL**

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Volumes impacted; realisations stayed weak: JKLC reported ~21% YoY/QoQ decline in revenue growth of ~Rs 11.4bn in 2QFY25. Volumes fell by 14%/20% YoY/QoQ at 1.87mn tonnes (excluding clinker sales) and realisation including RMC sales fell 10%/2% YoY/QoQ to Rs 5,763/t indicating Q2FY25 was impacted by weak demand that impacted volume and realisations. Intense competitive pressure in a weak quarter was the key reason for the overall weakness in the topline.

Operating performance stays rangebound: The overall cost fell only by 1.5% YoY at Rs 5,788/t (+7% QoQ). Raw material cost (+13% YoY) was offset by lower external purchases (-10 % YoY) indicating higher clinker utilisation. Fuel cost fell by ~18% YoY (+15.4% QoQ) and logistic cost by 4% YoY (+4% QoQ). Other expenditure rose by 2% YoY (volume down 14%). EBITDA fell steeply by 66% YoY/QoQ to ~Rs 613mn. EBITDA margin fell from 12.3% to a low of 5% YoY. EBITDA/t fell to a low of Rs 329/t from Rs 822/t YoY.

Capacity expansion on track: JKLC is adding a 1.5mnt grinding unit in Surat by FY25-end. It is expanding its clinker capacity by 2.3mnt at its Durg plant, backed by four cement grinding units aggregating 4.6mnt over the next three years. It will add GUs in Bihar and Jharkhand. Its Northeast India expansion plans await clearances.

JKLC's merger with Udaipur Cement Works awaits clearances: Following the merger announcement of UCWL with JKLC, mandatory clearance procedures are underway and management expects the same to be completed in FY26.

Estimates lowered; maintain SELL: We cut our FY25E/FY26E EBITDA by 27%/8% to factor in the changing dynamics of its operating areas following intense supply pressure from large cement companies. This is specific to Gujarat and East India markets which have seen the entry of big-size competitive play. We pencil in a weak three-year EBITDA/PAT CAGR of 7%, factoring in pricing weakness that may be partially offset by a better cost structure. Retaining lost market share will be a key challenge in key markets. We value JKLC at 9x EV/EBITDA 1-year forward earnings (unchanged) and cut TP to Rs 661 (from Rs 687). Maintain SELL.

Key changes

Target	Rating
▼	◄ ►

Ticker/Price	JKLC IN/Rs 766
Market cap	US$ 1.1bn
Free float	54%
3M ADV	US$ 1.6mn
52wk high/low	Rs 1,000/Rs 709
Promoter/FPI/DII	46%/14%/26%

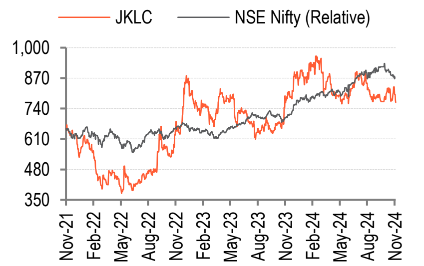
Source: NSE | Price as of 8 Nov 2024

Key financials

Y/E 31 Mar	FY24A	FY25E	FY26E
Total revenue (Rs mn)	63,198	61,271	68,200
EBITDA (Rs mn)	8,637	6,115	8,586
Adj. net profit (Rs mn)	4,243	2,567	4,075
Adj. EPS (Rs)	36.1	21.8	34.6
Consensus EPS (Rs)	36.1	39.0	48.0
Adj. ROAE (%)	14.0	7.8	11.9
Adj. P/E (x)	21.3	35.1	22.1
EV/EBITDA (x)	10.5	16.4	9.9
Adj. EPS growth (%)	28.3	(39.5)	58.8

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

Fig 1 – Earnings call highlights

Parameter	Q2FY25	Q1FY25	Our view
Volume and realisations	Q2FY25 has been volatile and cyclical for JKLC and more impactful than the industry. Management expects cement industry demand to grow at 4-5% in FY25. For Q2FY25, JKLC's capacity utilisation was ~65%. Prices have dropped by about 8% especially in East, West and North India.	JKLC's sales volume declined by 8% YoY. JKLC indicated demand growth would be at least 1-2% higher than the industry's revised forecast of 6-7% for FY25. JKLC plans to achieve 60% capacity utilisation by FY25-end with an overall target of 70-75% capacity utilisation.	The loss of market share is evident as JKLC lags well behind industry growth. It will be challenging to regain lost ground.
Margin	Fuel cost was at Rs 1.62/kcal vs 1.63/kcal in Q1FY25 and management expects this to be in the same range going forward. JKLC is working on cost reduction and expects to achieve cost savings of Rs 50-100/t.	Fuel cost was Rs 1.63/kcal vs 1.66/kcal in Q4FY24 and management expects this to be in the range of Rs 1.63-1.65/kcal going forward. JKLC is working on cost reduction and expects to achieve cost savings of Rs 50-75/t.	In our view, pricing challenges will only partially offset the benefit of operating efficiencies.
Capacity	JKLC has a planned capacity expansion of 4.6mt/2.3mt of cement/clinker at Durg Chhattisgarh, 3.4mt of cement at Prayagraj, Madhubani and Patratu. The first phase is expected to be commissioned by FY26/FY27. The Surat grinding unit is expected to be commissioned towards the end of FY25 and will add 1.35mt capacity. The Durg expansion will take about two to three years as the Udaipur Cement Works (UCWL) expansion is almost complete. The Railway sliding project at Durg will be commissioned in Q1FY26.	JKLC's subsidiary Udaipur Cement Works had commissioned a second clinker line of 1.5mt per annum, resulting in its clinker capacity doubling to 3mt p.a. JKLC is also expanding its cement grinding capacity at its Surat grinding unit (GU) from 1.35mt to 2.7mt and its clinker capacity at its cement plant in Durg by putting up an additional 2.3mt of clinker. This will be commensurate with the four cement grinding units of 4.6mt at Durg and three split-location GUs with aggregate cement grinding capacity of 3.4mt p.a. at Prayagraj in Uttar Pradesh, Madhubani in Bihar, and Patratu in Jharkhand.	Capacity expansion will be effective post FY26, though we note that the company's execution capabilities have remained below par in the past. Cost-saving initiatives need to be expedited as well.
Capex	In H1 capex spent was Rs 1.75bn and JKLC expects FY25 spending to be Rs 5bn. JKLC expects a capex of Rs 9bn for FY25 including UCWL.	Management has spent Rs 0.9bn of capex in Q1FY25 and expects to spend an additional Rs 8bn-9bn in 9MFY25. JKLC will spend Rs 2.2bn at the Surat grinding location, railway siding of Rs 2.25bn. Rs 25bn will be spent on brownfield expansion in Durg in the next three years.	Aggressive expansion plans imply that the capex trajectory is likely to remain elevated.
Other key points	Gross debt was Rs 6.93bn and cash Rs 1.37bn by Q2-end. At the consolidated level, debt was ~Rs 22bn and cash Rs 2.58bn. Non cement revenue was Rs 1.26bn and margin was at ~5%. The RMC contributed about ~Rs 0.66bn. The Durg conveyer belt project is delayed since regulatory approval is awaited.	Gross debt stays at Rs 7bn and Rs 3.75bn of cash with net debt of Rs 3.25bn. On a consolidated level, gross debt was Rs 20.5bn, cash Rs 4bn and net debt Rs 16.5bn. Non-cement revenue was at Rs 1.32bn in Q1FY25, of which ready-mix concrete made up ~Rs 0.72mn and the other segment made up ~Rs 0.6bn. The conveyor belt project at the Durg plant remains delayed due to approval and procedural issues.	The Durg conveyor belt project has been delayed for longer than expected. Debt-EBITDA will remain elevated if capex is executed as planned in the interim period.

Source: Company, BOBCAPS Research \| RMC: Ready-mix concrete

Fig 2 – Key metrics (standalone)

	Q2FY25	Q2FY24	YoY (%)	Q1FY25	QoQ (%)	Q2FY25E	Deviation (%)
Volumes (mn mt)	1.9	2.2	(14.0)	2.3	(19.8)	2.53	(26.3)
Cement realisations (Rs/t)	5,763	6,415	(10.2)	5,901	(2.3)	6,185	(6.8)
Operating costs (Rs/t)*	5,788	5,869	(1.4)	5,417	6.8	5,791	(0.1)
EBITDA/t (Rs)	329	822	(60.0)	793	(58.6)	662	(50.4)

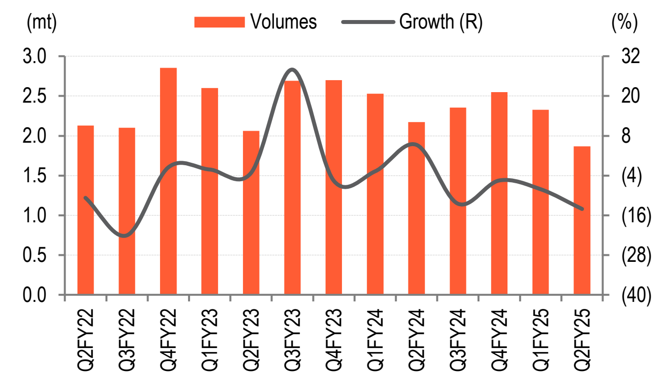
Source: Company, BOBCAPS Research | * Aggregate cost

Fig 3 – Quarterly performance (standalone)

(Rs mn)	Q2FY25	Q2FY24	YoY (%)	Q1FY25	QoQ (%)	Q2FY25E	Deviation (%)
Net Sales	**11,413**	**14,526**	**(21.4)**	**14,445**	**(21.0)**	**12,020**	**(5.0)**
Expenditure							
Change in stock	(369)	(245)	50.7	436	(184.6)	(255)	44.6
Raw material	2,269	2,196	3.3	2,303	(1.4)	2,002	13.4
purchased products	1,500	1,944	(22.9)	1,786	(16.0)	1,457	2.9
Power & fuel	2,463	3,476	(29.2)	2,659	(7.4)	2,106	16.9
Freight	2,360	2,848	(17.1)	2,846	(17.1)	2,452	(3.8)
Employee costs	959	937	2.3	875	9.7	855	12.2
Other exp	1,618	1,584	2.1	1,696	(4.6)	1,611	0.4
Total Operating Expenses	10,800	12,741	(15.2)	12,600	(14.3)	10,229	5.6
EBITDA	**613**	**1,785**	**(65.6)**	**1,846**	**(66.8)**	**1,791**	**(65.8)**
EBITDA margin (%)	5.4	12.3	(692bps)	12.8	(740bps)	14.9	(953bps)
Other Income	119	151	(21.3)	122	(2.5)	158	(24.9)
Interest	177	228	(22.4)	190	(7.0)	211	(16.2)
Depreciation	498	476	4.6	469	6.2	477	4.4
PBT	57	1,232	(95.4)	1,308	(95.6)	1,261	(95.5)
Non-recurring items	0	0	0.0	800	0.0	0	0.0
PBT (after non recurring items)	57	1,232	(95.4)	2,108	(97.3)	1,261	(95.5)
Tax	(18)	402	(104.5)	545	(103.3)	404	(104.5)
Reported PAT	75	830	(90.9)	1,563	(95.2)	857	(91.2)
Adjusted PAT	**75**	**830**	**(90.9)**	**763**	**(90.1)**	**857**	**(91.2)**
NPM (%)	0.7	5.7	(506bps)	5.3	(462bps)	7.1	(647bps)
Adjusted EPS (Rs)	**0.6**	**7.1**	**(90.9)**	**6.5**	**(90.1)**	**7.3**	**(91.2)**

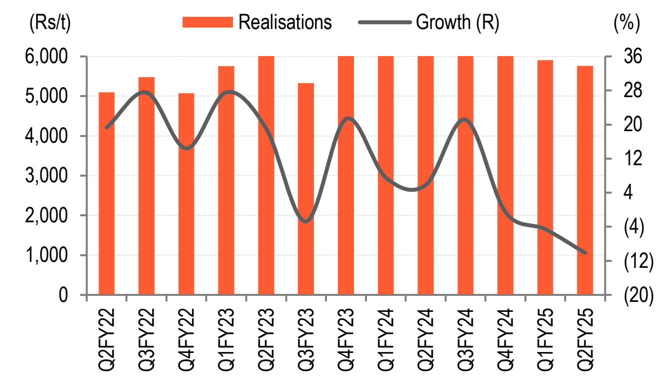
Source: Company, BOBCAPS Research

Fig 4 – Volume gains capped by capacity constraints



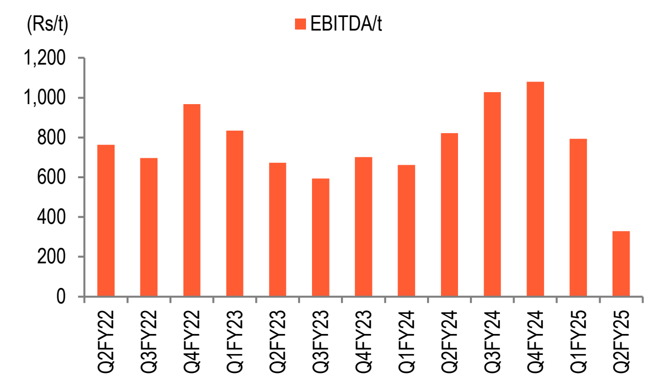
Source: Company, BOBCAPS Research | Management has restated volume numbers from Q1FY22

Fig 5 – Realisation likely to stay weak due to supply pressure in key markets



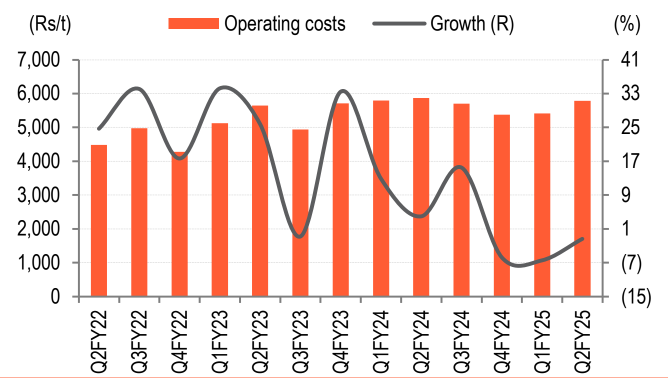
Source: Company, BOBCAPS Research | Management has restated volume numbers from Q1FY22

Fig 6 – EBITDA/t may continue to be under pressure



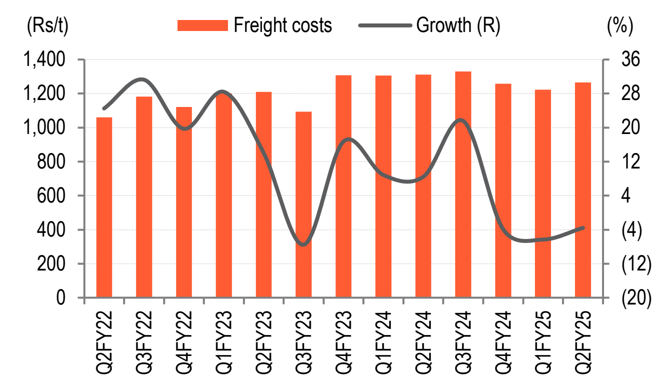
Source: Company, BOBCAPS Research | Management has restated volume numbers from Q1FY22

Fig 7 – Operating cost sees only marginal respite



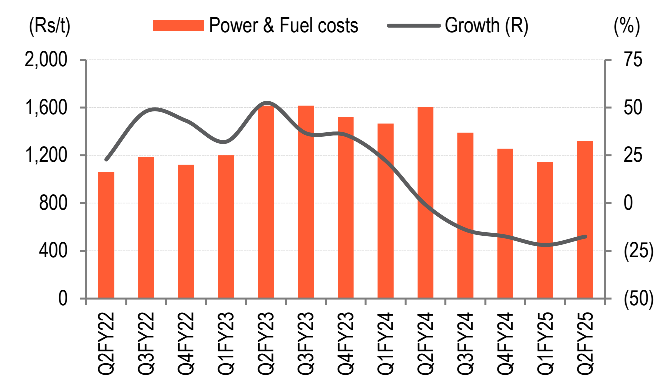
Source: Company, BOBCAPS Research | Management has restated volume numbers from Q1FY22

Fig 8 – Freight cost savings due to lower lead distance



Source: Company, BOBCAPS Research | Management has restated volume numbers from Q1FY22

Fig 9 – Fuel cost savings commendable



Source: Company, BOBCAPS Research | Management has restated volume numbers from Q1FY22

Valuation methodology

We cut our FY25E/FY26E EBITDA by 27%/8% to factor in the changing dynamics in its operating areas following intense supply pressure from large cement companies. This is specific to Gujarat and eastern India markets which have seen the entry of big-size competitive play. We pencil in a weak three-year EBITDA/PAT CAGR of 7%, factoring in pricing weakness that may be partially offset by a better cost structure. Retaining lost market share will be a challenge in key markets.

In our view, JKLC's performance will be determined by its ability to deliver volumes from the new capacity as its capex is largely backed by debt. Regaining lost market share during the capacity constraint phase will be a key challenge in competitive conditions. The changed dynamics of the cement sector with aggressive pricing for market penetration and capability of large size companies to sustain pricing pressure will be the key pressure points for regional companies. Growing competition in JKLC's operating regions including Gujarat and the eastern region, balance sheet pressure in the capex phase and weak execution capabilities in the past remain key challenges.

We value JKLC at 9x EV/EBITDA 1-year forward earnings (unchanged) and cut TP to Rs 661 (from Rs 687). Maintain SELL.

Fig 10 – Revised estimates

(Rs mn)	New			Old			Change (%)		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Revenue	61,271	68,200	73,977	66,585	68,940	74,122	(8.0)	(1.1)	(0.2)
EBITDA	6,115	8,586	10,627	8,362	9,346	10,465	(26.9)	(8.1)	1.5
Adj PAT	2,567	4,075	5,184	4,140	4,700	5,331	(38.0)	(13.3)	(2.8)
Adj EPS (Rs)	21.81	34.63	44.05	35.2	39.9	45.3	(38.0)	(13.2)	(2.8)

Source: BOBCAPS Research

Fig 11 – Key assumptions

Parameter	FY24	FY25E	FY26E	FY27E
Volumes (mt)	9.61	9.9	10.9	11.7
Realisations (Rs/t)	6,360	6,170	6,262	6,387
Operating costs (Rs/t)	5,559	5,564	5,467	5,430
EBITDA/t (Rs)	880	617	787	911

Source: Company, BOBCAPS Research

Fig 12 – Valuation summary

(Rs mn)	FY26E
Target EV/EBITDA (x)	9.44
EBITDA	10,627
Target EV	100,318
Total EV	100,318
Net debt	14,830
Target market capitalisation	85,488
Target price (Rs/sh)	**661**
Weighted average shares (mn)	118

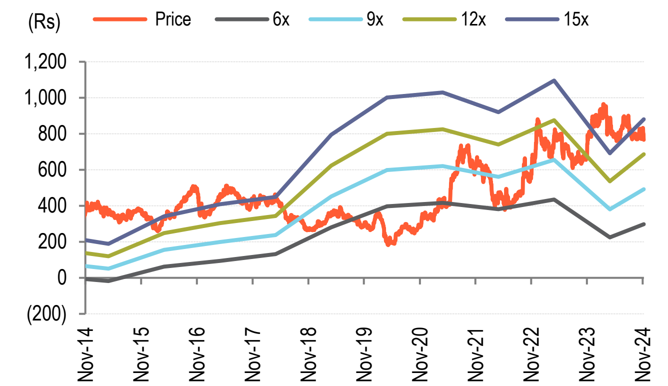
Source: BOBCAPS Research

Fig 13 – Peer comparison

Ticker	Rating	Target Price (Rs)	EV/EBITDA (x)			EV/tonne (US$)			ROE (%)			ROCE (%)		
			FY24	FY25E	FY26E	FY24	FY25E	FY26E	FY24	FY25E	FY26E	FY24	FY25E	FY26E
JKLC IN	SELL	661	17.7	12.7	10.6	81	84	93	7.8	11.9	13.5	10.5	13.9	15.6
TRCL IN	SELL	737	12.8	11.0	10.0	134	133	135	6.4	7.8	8.5	8.6	9.9	10.4
JKCE IN	HOLD	4,190	20.3	16.3	13.6	225	165	137	15.9	18.0	18.5	14.1	15.6	16.6

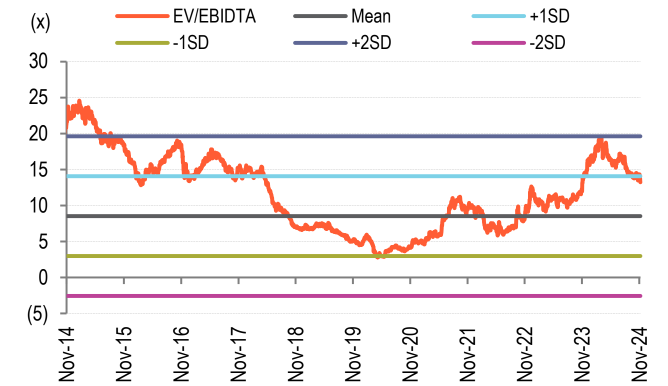
Source: BOBCAPS Research

Fig 14 – EV/EBITDA band: Valuations far ahead of earnings



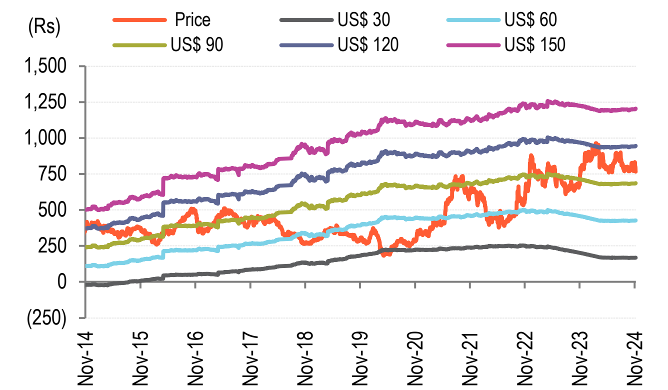
Source: Bloomberg, BOBCAPS Research

Fig 15 – EV/EBITDA 1Y fwd: Expect reversion to mean



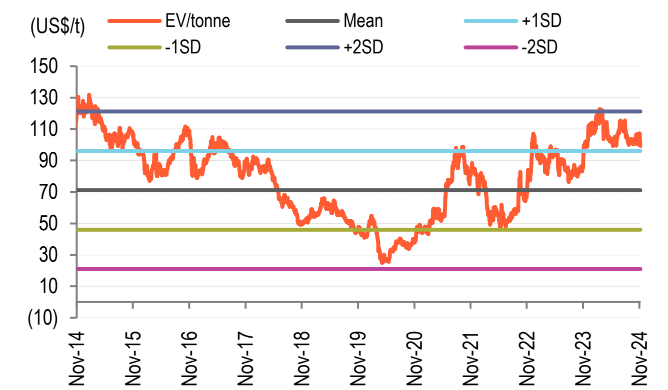
Source: Bloomberg, BOBCAPS Research

Fig 16 – EV/tonne band: Replacement cost moderating



Source: Bloomberg, BOBCAPS Research

Fig 17 – EV/tonne 1Y fwd: Expect reversion to mean



Source: Bloomberg, BOBCAPS Research

Key risks

Key upside risks to our estimates are:

- strong pricing gains in key operating regions,
- further softening of energy cost lending a boost to margins, and
- aggressive capex execution, leading to an above-expected performance.

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Total revenue	**60,711**	**63,198**	**61,271**	**68,200**	**73,977**
EBITDA	7,043	8,637	6,115	8,586	10,627
Depreciation	(1,935)	(1,950)	(2,097)	(2,250)	(2,609)
EBIT	5,730	7,328	4,674	7,010	8,711
Net interest inc./(exp.)	(915)	(872)	(869)	(1,189)	(1,307)
Other inc./(exp.)	622	640	656	674	693
Exceptional items	0	0	0	0	0
EBT	4,815	6,456	3,805	5,821	7,404
Income taxes	(1,507)	(2,212)	(1,239)	(1,746)	(2,220)
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	0	0	0	0	0
Reported net profit	**3,308**	**4,243**	**2,567**	**4,075**	**5,184**
Adjustments	0	0	0	0	0
Adjusted net profit	**3,308**	**4,243**	**2,567**	**4,075**	**5,184**

Balance Sheet

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Accounts payables	7,841	2,888	13,449	14,699	15,621
Other current liabilities	8,724	14,954	15,442	15,904	16,380
Provisions	156	181	744	759	776
Debt funds	5,846	5,632	14,809	16,888	17,976
Other liabilities	1,596	2,683	198	198	198
Equity capital	588	588	588	588	588
Reserves & surplus	25,960	30,226	32,104	35,489	39,980
Shareholders' fund	27,949	32,743	32,693	36,078	40,569
Total liab. and equities	**52,112**	**59,081**	**77,334**	**84,527**	**91,520**
Cash and cash eq.	8,450	4,985	4,590	5,948	3,146
Accounts receivables	605	402	1,763	1,868	2,027
Inventories	7,004	7,622	6,966	7,661	8,107
Other current assets	4,190	4,159	4,535	4,694	4,866
Investments	4,141	11,807	11,951	12,098	12,247
Net fixed assets	26,943	26,224	39,373	48,589	57,446
CWIP	649	3,739	8,000	3,500	3,500
Intangible assets	129	144	155	168	181
Deferred tax assets, net	0	0	0	0	0
Other assets	0	0	0	0	0
Total assets	**52,112**	**59,081**	**77,334**	**84,527**	**91,520**

Cash Flows

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Cash flow from operations	**2,861**	**8,121**	**12,709**	**7,094**	**8,431**
Capital expenditures	(1,049)	(4,257)	(19,519)	(6,979)	(11,479)
Change in investments	136	(5,258)	(450)	(147)	851
Other investing cash flows	0	0	0	0	0
Cash flow from investing	**(913)**	**(9,516)**	**(19,969)**	**(7,126)**	**(10,628)**
Equities issued/Others	884	529	(1,929)	0	0
Debt raised/repaid	(2,107)	(214)	9,176	2,080	1,088
Interest expenses	0	0	0	0	0
Dividends paid	(588)	(677)	(588)	(588)	(588)
Other financing cash flows	(177)	699	(100)	(102)	(104)
Cash flow from financing	**(1,989)**	**338**	**6,559**	**1,389**	**395**
Chg in cash & cash eq.	**(41)**	**(1,057)**	**(701)**	**1,358**	**(1,802)**
Closing cash & cash eq.	**8,450**	**4,985**	**4,590**	**5,948**	**3,146**

Per Share

Y/E 31 Mar (Rs)	FY23A	FY24A	FY25E	FY26E	FY27E
Reported EPS	28.1	36.1	21.8	34.6	44.1
Adjusted EPS	28.1	36.1	21.8	34.6	44.1
Dividend per share	5.0	5.7	5.0	5.0	5.0
Book value per share	237.5	278.2	277.8	306.6	344.7

Valuations Ratios

Y/E 31 Mar (x)	FY23A	FY24A	FY25E	FY26E	FY27E
EV/Sales	1.4	1.4	1.6	1.2	1.1
EV/EBITDA	12.4	10.5	16.4	9.9	7.5
Adjusted P/E	27.3	21.3	35.1	22.1	17.4
P/BV	3.2	2.8	2.8	2.5	2.2

DuPont Analysis

Y/E 31 Mar (%)	FY23A	FY24A	FY25E	FY26E	FY27E
Tax burden (Net profit/PBT)	68.7	65.7	67.5	70.0	70.0
Interest burden (PBT/EBIT)	84.0	88.1	81.4	83.0	85.0
EBIT margin (EBIT/Revenue)	9.4	11.6	7.6	10.3	11.8
Asset turnover (Rev./Avg TA)	120.8	113.7	89.8	84.3	84.0
Leverage (Avg TA/Avg Equity)	1.9	1.8	2.1	2.4	2.3
Adjusted ROAE	12.6	14.0	7.8	11.9	13.5

Ratio Analysis

Y/E 31 Mar	FY23A	FY24A	FY25E	FY26E	FY27E
YoY growth (%)					
Revenue	20.4	4.1	(3.0)	11.3	8.5
EBITDA	(12.1)	22.6	(29.2)	40.4	23.8
Adjusted EPS	(26.4)	28.3	(39.5)	58.8	27.2
Profitability & Return ratios (%)					
EBITDA margin	11.6	13.7	10.0	12.6	14.4
EBIT margin	9.4	11.6	7.6	10.3	11.8
Adjusted profit margin	5.4	6.7	4.2	6.0	7.0
Adjusted ROAE	12.6	14.0	7.8	11.9	13.5
ROCE	16.7	19.2	10.5	13.9	15.6
Working capital days (days)					
Receivables	4	2	11	10	10
Inventory	42	44	42	41	40
Payables	53	19	89	90	90
Ratios (x)					
Gross asset turnover	1.5	1.5	1.1	1.0	0.9
Current ratio	1.2	1.0	0.6	0.6	0.6
Net interest coverage ratio	6.3	8.4	5.4	5.9	6.7
Adjusted debt/equity	0.2	0.2	0.5	0.5	0.4

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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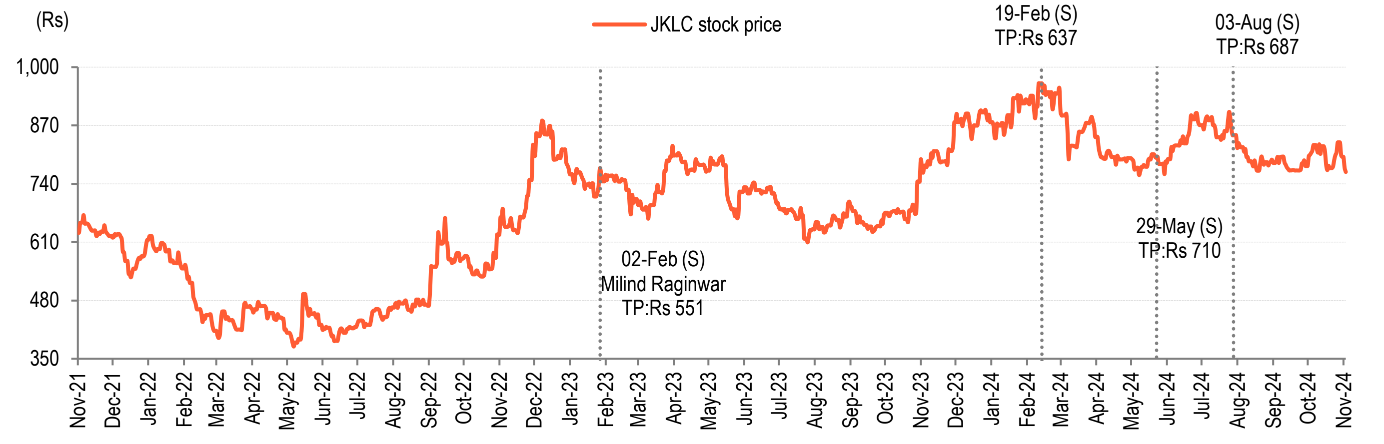

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