RESULT REVIEW

SELL

TP: Rs 694 | ∨ 18%

JK LAKSHMI CEMENT | Cement | 09 February 2025

Challenges galore leading to a weak show; maintain SELL

- **Double-digit revenue decline YoY by 13% dragged by lower volume growth, down 5%, and weak realisations that fell by 10%**
- **Operating cost fell ~4%/5% YoY/QoQ aided by lower energy cost which provided little respite as EBITDA/t slipped by 38% YoY to Rs634/t**
- **We value JKLC at 9x EV/EBITDA 1-year forward earnings with a new TP of Rs 694 (vs Rs 661) as earnings retained. Maintain SELL**

Milind Raginwar
research@bobcaps.in

Volumes impacted; realisations stayed weak: JKLC reported ~13% YoY decline in revenue growth (+~20% QoQ) at ~Rs13.7bn in Q3FY25. Volumes fell by 4.5% YoY (+20.47% QoQ) at 2.24 mnt (excluding clinker sales) and cement realization fell by ~10% YoY (flat QoQ) at Rs5,815/tn indicating Q3FY25 was impacted by weak realizations in primary target markets. 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 by 4%5% YoY/QoQ at Rs5,475/tn. Fuel cost (raw material adjusted cost) fell 8%/5% YoY/QoQ. The RM cost inflation was offset by lower external purchases (-9 % YoY) indicating higher clinker utilisation. Additionally, logistic cost fell by ~5% YoY (flat QoQ) and other expenditure also rose by ~3%/8% YoY/QoQ. Effectively, EBITDA fell steeply by 41% YoY to ~Rs1.42bn and EBITDA margin slipped from 15.3% to 10.4% YoY (recovered from 5.4% in Q2FY25). EBITDA/t fell to Rs634/t from Rs1,028/tn YoY(+~93%QoQ).

Capacity expansion on track: JKLC is adding additional 1.35mnt grinding unit in Surat by FY25-end/FY26 start. It is expanding its clinker capacity by 2.3mnt at its Durg plant, backed by four cement grinding units aggregating 4.6mnt. It will add three split location CGUs in Bihar, Jharkhand and UP. Its Northeast India expansion plans await clearances.

Merger with subsidiaries: JKLC has proposed bringing its cement assets under single umbrella by merging Udaipur Cement Work, Hansdeep Industries and Trading Company Ltd and Hidrive Developers & Industries Limited with itself.

Estimates lowered; maintain SELL: We maintain our earnings estimates. JKLC faces challenges from the changing dynamics of its operating areas following intense supply pressure from large cement companies. 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. We value JKLC at 9x EV/EBITDA 1-year forward earnings (unchanged) and revise TP to Rs 694 (from Rs 661). Maintain SELL.

Key changes

Target	Rating
▲	◄ ►

Ticker/Price	JKLC IN/Rs 844
Market cap	US$ 1.1bn
Free float	54%
3M ADV	US$ 1.4mn
52wk high/low	Rs 1,000/Rs 685
Promoter/FPI/DII	46%/14%/26%

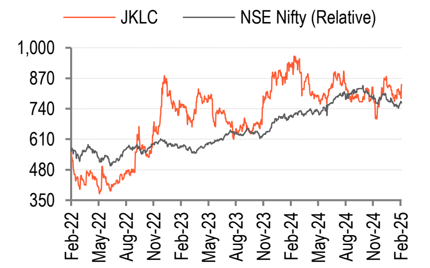
Source: NSE | Price as of 7 Feb 2025

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	24.0	41.0
Adj. ROAE (%)	14.0	7.8	11.9
Adj. P/E (x)	23.4	38.7	24.4
EV/EBITDA (x)	11.6	17.9	10.9
Adj. EPS growth (%)	28.3	(39.5)	58.8

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

Fig 1 – Earnings call highlights

Parameter	Q3FY25	Q2FY25	Our view
Volume and realisations	Management has guided a growth of 4-5% for FY25 and 6-7% for FY26. For Q3FY25, JKLC's capacity utilisation was ~78%. UCWL has a capacity utilization of 57% in Q3FY25 and is expected to be 65% in FY26. JKLC has observed improved pricing starting from end of Dec'24.	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.	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 1.57/kcal vs 1.62/kcal in Q2FY25. JKLC is working on cost reduction and expects to achieve cost savings of Rs 80-100/t by optimizing supply chain and adoption of renewable energy (proportion stands at 48% in Q3FY25). Blended cement was at 65% and trade proportion at 58%. Lead distance of 381km in Q3FY25.	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.	In our view, pricing challenges will only be partially offset by the benefit of operating efficiencies (cost measures).
Capacity	The Surat grinding unit is expected to be commissioned in a phase wise manner with 0.7mt capacity commissioned in Q4FY25 and the remaining in Q1FY26. Management has provided no deviation from Q2FY25 guidance for capacity expansion.	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.	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 9MFY25 JKLC has incurred Rs 2.5bn of capex and expects to spend another Rs 1bn in Q4FY25. Management has given a guidance of Rs 10bn for FY26 and Rs 15bn for FY27.	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.	Aggressive expansion plans imply that the capex trajectory is likely to remain elevated.
Other key points	Gross debt was Rs 6.5bn and cash Rs 3bn by Q3-end. At the consolidated level, debt was ~Rs 21.5bn and cash Rs 4bn. Non cement revenue was Rs 1.35bn and margin was at ~1%. The RMC business segment contributed about ~Rs 0.64bn. The Durg conveyer belt project is delayed since regulatory approval is awaited and expects the approval to be granted in Q4FY25.	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.	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)

	Q3FY25	Q3FY24	YoY (%)	Q2FY25	QoQ (%)	Q3FY25E	Deviation (%)
Volumes (mn mt)	2.2	2.4	(4.5)	1.9	20.5	2.43	(7.3)
Cement realisations (Rs/t)	5,815	6,450	(9.8)	5,763	0.9	5,783	0.6
Operating costs (Rs/t)*	5,475	5,706	(4.1)	5,788	(5.4)	5,223	4.8
EBITDA/t (Rs)	634	1,028	(38.3)	329	92.9	688	(7.8)

Source: Company, BOBCAPS Research | * Aggregate cost

Fig 3 – Quarterly performance (standalone)

(Rs mn)	Q3FY25	Q3FY24	YoY (%)	Q2FY25	QoQ (%)	Q3FY25E	Deviation (%)
Net Sales	**13,733**	**15,861**	**(13.4)**	**11,413**	**20.3**	**14,337**	**13,733**
Expenditure							
Change in stock	221	(230)	(196.3)	(369)	(160.0)	(211)	(204.8)
Raw material	2,402	2,618	(8.2)	2,269	5.9	2,484	(3.3)
purchased products	1,728	1,983	(12.9)	1,500	15.2	1,967	(12.2)
Power & fuel	2,356	3,272	(28.0)	2,463	(4.3)	2,940	(19.9)
Freight	2,847	3,131	(9.1)	2,360	20.6	2,833	0.5
Employee costs	1,015	977	3.9	959	5.8	933	8.7
Other exp	1,739	1,688	3.0	1,618	7.5	1,722	1.0
Total Operating Expenses	12,308	13,439	(8.4)	10,800	14.0	12,668	(2.8)
EBITDA	**1,425**	**2,422**	**(41.1)**	**613**	**132.4**	**1,669**	**(14.6)**
EBITDA margin (%)	10.4	15.3	(489bps)	5.4	500bps	11.6	(126bps)
Other Income	105	171	(38.2)	119	(11.2)	128	(17.7)
Interest	172	206	(16.4)	177	(2.9)	198	(13.2)
Depreciation	508	512	(0.7)	498	2.0	489	3.9
PBT	851	1,875	(54.6)	57	1,387.4	1,110	(23.3)
Non-recurring items	0	0	0.0	0	0.0	0	0.0
PBT (after non recurring items)	851	1,875	(54.6)	57	1,387.4	1,110	(23.3)
Tax	256	635	(59.7)	(18)	(1,506.0)	333	(23.1)
Reported PAT	595	1,241	(52.0)	75	689.0	777	(23.4)
Adjusted PAT	**595**	**1,241**	**(52.0)**	**75**	**689.0**	**777**	**(23.4)**
NPM (%)	4.3	7.8	(349bps)	0.7	367bps	5.4	(109bps)
Adjusted EPS (Rs)	**5.1**	**10.5**	**(52.0)**	**0.6**	**689.0**	**6.6**	**(23.4)**

Source: Company, BOBCAPS Research

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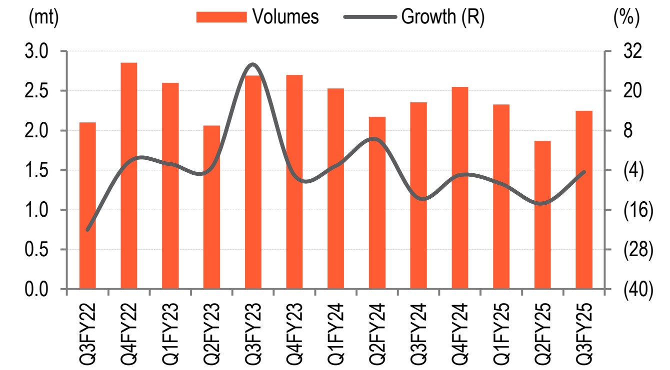
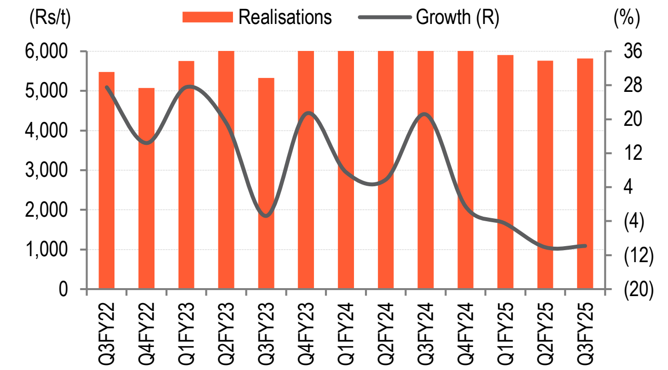
Fig 4 – Volume gains capped by capacity constraints



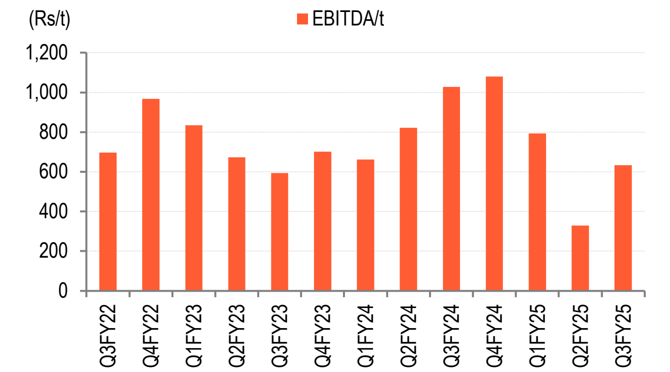
Source: Company, BOBCAPS Research | Management has restated volume numbers from Q1FY22

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



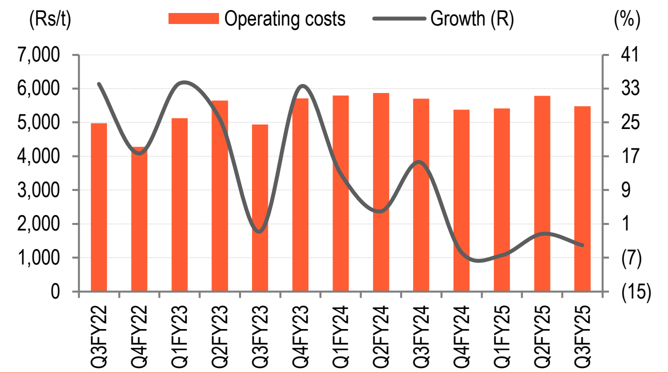
Source: Company, BOBCAPS Research | Management has restated volume numbers from Q1FY22

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



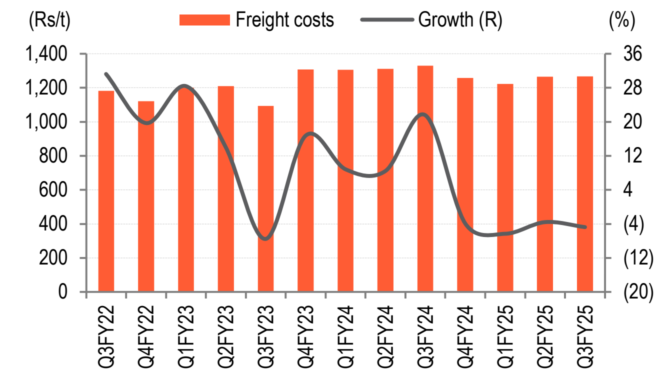
Source: Company, BOBCAPS Research | Management has restated volume numbers from Q1FY22

Fig 7 – Operating cost sees only marginal respite



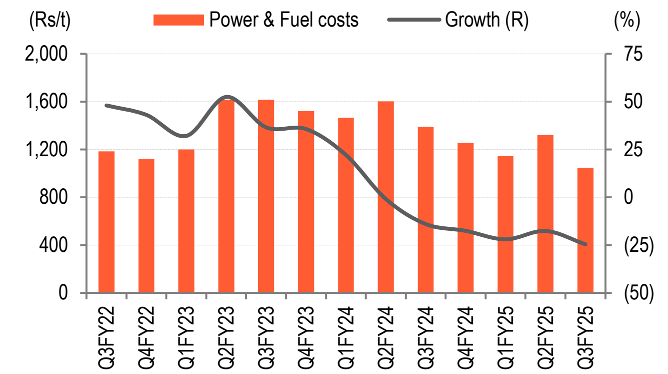
Source: Company, BOBCAPS Research | Management has restated volume numbers from Q1FY22

Fig 8 – Freight cost savings may be impacted if newer regions are tapped to guard realisations



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 maintain our earnings estimates. JKLC faces challenges from the changing dynamics of 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 revise TP to Rs 694 (from Rs 661). Maintain SELL

Fig 10 – 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 11 – Valuation summary

(Rs mn)	FY26E
Target EV/EBITDA (x)	9.0
EBITDA	10,627
Target EV	100,318
Total EV	100,318
Net debt	14,830
Target market capitalisation	85,488
Target price (Rs/sh)	**694**
Weighted average shares (mn)	118

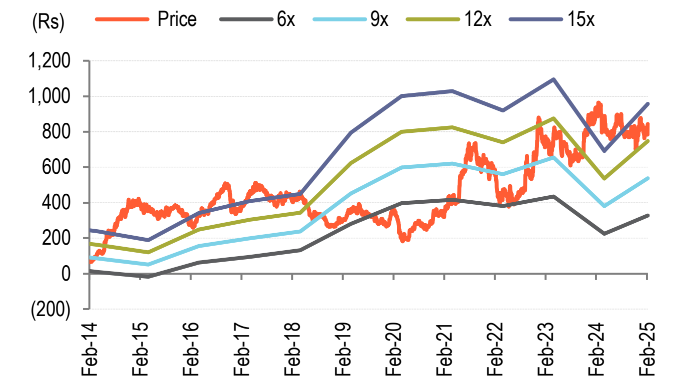
Source: BOBCAPS Research

Fig 12 – Peer comparison

Ticker	Rating	Target Price (Rs)	EV/EBITDA (x)			EV/tonne (US$)			ROE (%)			ROCE (%)		
			FY24	FY25E	FY26E	FY24	FY25E	FY26E	FY24	FY25E	FY26E	FY24	FY25E	FY26E
JKLC IN	SELL	694	17.9	10.9	8.3	105	106	110	7.8	11.9	13.5	10.5	13.9	15.6
TRCL IN	SELL	722	18.5	13.9	11.6	123	112	113	5.3	6.7	8.4	5.4	8.1	10.1
JKCE IN	HOLD	4,511	23.2	13.4	10.9	246	193	156	13.8	17.2	18.0	13.1	16.0	17.8

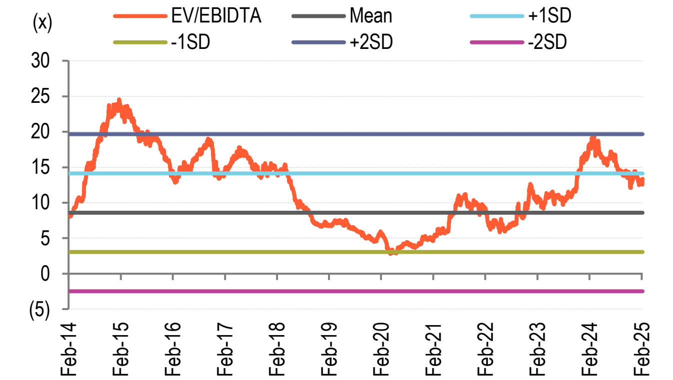
Source: BOBCAPS Research

Fig 13 – EV/EBITDA band: Valuations premium unjustified following weak earnings



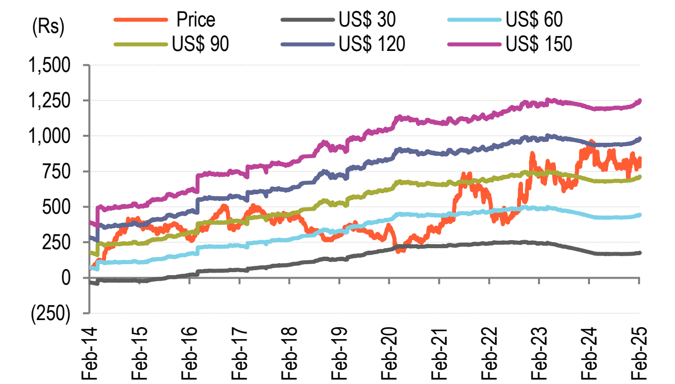
Source: Bloomberg, BOBCAPS Research

Fig 14 – EV/EBITDA 1Y fwd: Valuations following earnings path



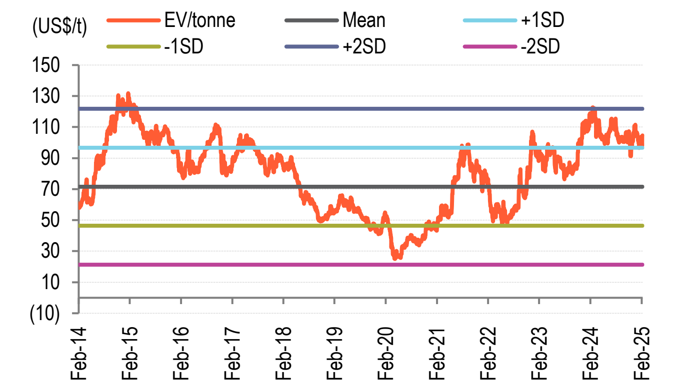
Source: Bloomberg, BOBCAPS Research

Fig 15 – EV/tonne band: Replacement cost moderating



Source: Bloomberg, BOBCAPS Research

Fig 16 – 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	1.6	1.6	1.8	1.4	1.2
EV/EBITDA	13.7	11.6	17.9	10.9	8.3
Adjusted P/E	30.0	23.4	38.7	24.4	19.2
P/BV	3.6	3.0	3.0	2.8	2.4

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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Brand Name: **BOBCAPS**
Trade Name: **www.barodaetrade.com**
CIN: **U65999MH1996GOI098009**

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Registration granted by SEBI and certification from NISM in no way guarantee performance of the intermediary or provide any assurance of returns to investors.

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

BUY – Expected return >+15%

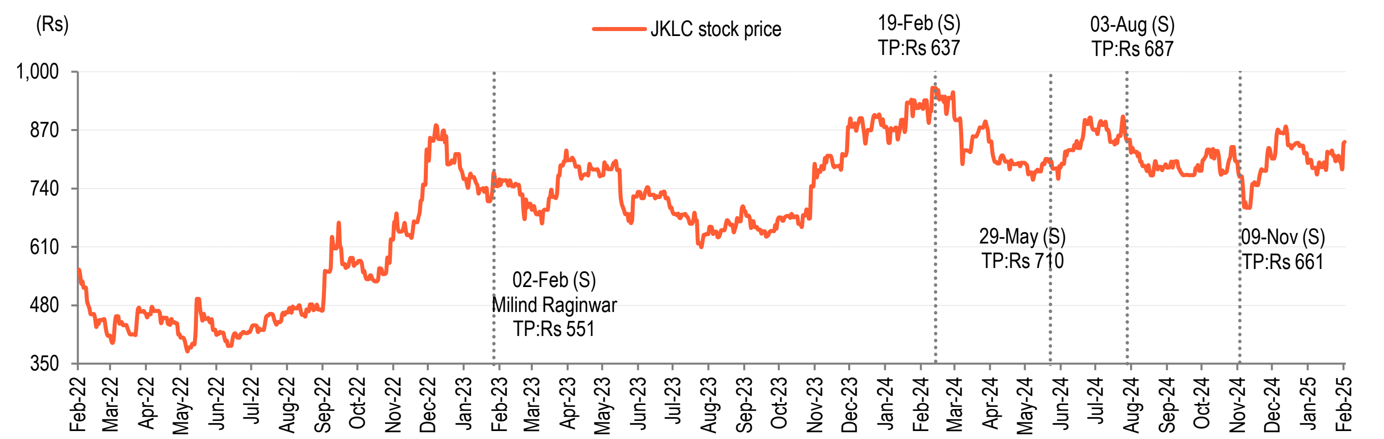
HOLD – Expected return from -6% to +15%

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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