BOBCAPS
TRUST | INNOVATION | EXCELLENCE

SELL
TP: Rs 710 | ∀ 11%

JK LAKSHMI CEMENT | Cement | 29 May 2024

Margins gain, volume flat; no major respite, retain SELL

- **Q4 volumes fell 5% YoY as capacity constraints restricted volume even to cater to steady demand; realisations flat YoY despite weak volumes**
- **Operating cost declined 6%, driven by lower energy cost helping EBITDA margin improve to 16.7% from a low base of ~11% YoY**
- **Capex increased to maintain growth, may add to balance sheet stress; we now value JKLC at 9x EV/EBITDA with higher TP of Rs 710**

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Flat realisations despite fall in volume: JKLC reported 5% YoY revenue fall (+4% QoQ) to Rs 16.5bn in Q4FY24 as volumes fell by 5% YoY (+8% QoQ) to 2.55mt (standalone) due to limited supply given restricted capacity available. Realisations (RMC-adjusted) were flat despite weak volume at Rs 6,122/t YoY (down 5% QoQ).

Operating cost softens: Operating cost fell 6% YoY/QoQ to Rs 5,380/t as the fall in energy-adjusted raw material cost by 19%/10% YoY/QoQ to Rs 2,157/t was offset by higher purchase of traded goods cost that rose by 16% YoY due to limited in-house availability. EBITDA for the quarter grew 46%/14% YoY/QoQ to ~Rs 2.8bn with margin improvement to 16.7%, mainly off a weak base. EBITDA/t shot up 54% YoY (5% QoQ) to Rs 1,080 and adj. PAT rose 46%/15% YoY/QoQ to Rs 1.4bn.

Expansion to drive growth: JKLC commissioned the 2.5mt grinding unit (GU) expansion at Udaipur in Mar'24. Its 1.35mt GU expansion in Surat will now be completed in tranches in FY25/FY26. To expand its clinker/cement capacity JKLC is setting up a 2.3mt clinker line at Durg (Chhattisgarh), 4.6mt of grinding capacity at Durg (1.2mt) and three split GUs at Prayagraj (Uttar Pradesh)/Madhubani (Bihar)/Patratu (Jharkhand) of 1.2mt/1.2mt/1mt. Management expects phase-I (1.2mt each at Prayagraj and Durg) to be complete by FY26-end and the rest by FY27E. The company expects to commission expansion in North-east India over the next three years.

Maintain SELL: We tweak FY25E EBITDA to factor in a slow H1, but raise our FY26 estimates by ~2.5% and adj. PAT by 2%/5% to factor in the benefit of easing energy costs and other company-initiated cost savings (railway siding in the Durg facility). 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. Retaining lost market share during the capacity constraint phase will be a key challenge in competitive conditions. We now value JKLC at 9x (from 8x) EV/EBITDA FY26E earnings and arrive at a TP of Rs 710 (from Rs 637). We retain our SELL rating. Growing competition in JKLC's operating regions, balance sheet pressure in the capex phase and weak execution capabilities in the past remain key challenges.

Key changes

Target	Rating
▲	◄ ►

Ticker/Price	JKLC IN/Rs 798
Market cap	US$ 1.1bn
Free float	54%
3M ADV	US$ 1.8mn
52wk high/low	Rs 1,000/Rs 607
Promoter/FPI/DII	46%/14%/26%

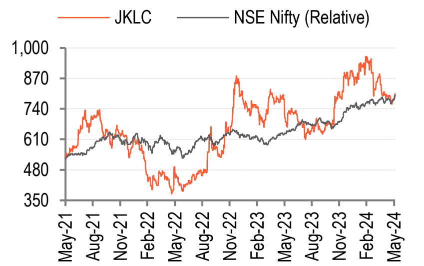
Source: NSE | Price as of 28 May 2024

Key financials

Y/E 31 Mar	FY24P	FY25E	FY26E
Total revenue (Rs mn)	63,198	68,635	71,756
EBITDA (Rs mn)	8,637	9,769	11,028
Adj. net profit (Rs mn)	4,243	4,892	5,629
Adj. EPS (Rs)	36.1	41.6	47.8
Consensus EPS (Rs)	36.1	46.1	52.5
Adj. ROAE (%)	14.4	14.9	15.1
Adj. P/E (x)	22.1	19.2	16.7
EV/EBITDA (x)	10.3	10.4	8.4
Adj. EPS growth (%)	28.3	15.3	15.1

Source: Company, Bloomberg, BOBCAPS Research | P – Provisional

Stock performance



Source: NSE

Fig 1 – Earnings call highlights

Parameter	Q4FY24	Q2FY24	Our view
Volumes and Realisations	JKLC's sales volume was flat YoY in Q4FY24 and management indicated volume growth of 5% in FY24 against its earlier guidance of 8-10%. The company has now indicated volume growth of 10% in FY25.	JKLC's sales volume grew 2% YoY to 2.4mt in Q3FY24 and management has revised volume growth guidance to 8-10% for FY24, driven by higher demand expected in the eastern India region. The company had 105% clinker utilisation and 79% cement utilisation during Q3.	The loss of market share is evident as JKLC lags well behind industry growth. It will be challenging to regain lost ground.
Margins	Fuel cost stood at Rs 1.68kcal vs. 1.78/kcal in Q3FY24. However, management expects fuel cost to stay flat or reverse up due to input cost inflation in the medium term. Management indicated that cement prices have softened in operating markets in Q1FY25 by 1% in addition to the fall in Q4FY25. No commentary on EBITDA/t guidance in the near term.	Fuel cost stood at Rs 1.78/kcal in Q3FY24 and management expects a further decline to ~Rs 1.7/kcal in Q4. Management indicated that cement prices have softened in operating markets in mid-Q4FY24. EBITDA/t guidance of Rs 1,000 has been retained.	Realisation weakness in operating markets will offset the benefits of operating efficiencies, in our view.
Capacity	The 2.5mt GU expansion at Udaipur was commissioned in Mar'24. JKLC's 1.35mt GU expansion in Surat will be completed in tranches in FY25/FY26. JKLC is expanding clinker/cement capacity by setting up a 2.3mt clinker line at Durg (Chhattisgarh), 4.6mt of grinding capacity at Durg (1.2mt) and three split GUs. It is also setting up a railway siding in the Durg facility to be completed in FY25/FY26. The North-East India capacity expansion will span the next 3 years (may stretch beyond too).	JKLC's 1.35mt GU expansion in Surat is on schedule. The 1.5mt clinker line at UCWL was commissioned in Q3FY24 and the 2.5mt GU expansion is due by end-Q4. The company is expanding clinker/cement capacity by setting up a 2.3mt clinker line at Durg (Chhattisgarh), 4.6mt of grinding capacity at Durg (1.2mt) and three split GUs at Prayagraj (UP)/Madhubani (Bihar)/Patratu (Jharkhand) of 1.2mt/1.2mt/1mt. Management expects phase-I (1.2mt each at Prayagraj and Durg) to be complete by FY26-end.	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	Management estimates capex toward announced expansion projects in FY25 at Rs 12bn including Durg expansion. The North-East India expansion will be at a cost of Rs 18bn spread over the next 2-3 year till FY27 and even beyond. JKLC expects to spend Rs 15bn on the capacity expansion and Rs 3bn on other capex.	Capex outflow for FY24 YTD is ~Rs 2.5bn for JKLC and ~Rs 4.5bn for UCWL. Expected capex for Q4FY24 is ~Rs 2.5bn and ~Rs 3bn respectively. Management estimates capex towards announced expansion projects at ~Rs 25bn, of which ~Rs 17.5bn is expected to be funded through bank terms loans and the balance through internal accruals.	Aggressive expansion plans imply that the capex trajectory is likely to remain elevated.
Other key points	Non-cement revenue was at Rs 1.5bn in Q4, of which RMC made up ~Rs 860mn and the other segment made up ~Rs 680mn with EBITDA margin of ~5%. The average TSR proportion was 10% with JKLC at 12% and UCWL at 8%. The conveyor belt project at the Durg plant remains delayed due to approval and procedural issues. Management expects the issues to be resolved in Q1FY25. The proposed railway siding at Durg will be completed in phases and expects phase-I/phase-II completion by Q2FY25/Q4FY26.	Non-cement revenue was at Rs 1.3bn in Q3, of which RMC made up ~Rs 670mn and the other segment made up ~Rs 670mn. It is also undertaking projects to enhance the TSR to 16% from 4% at Sirohi, Rajasthan. The conveyor belt project at the Durg plant remains delayed due to approval and procedural issues. JKLC expects the issues to be resolved in Q4FY24. JKLC is also setting up a railway siding at Durg and expects phase-I/phase-II completion by Q2FY25/Q4FY26. The board has approved the acquisition of an 85% stake in Agrani Cement at a cost of Rs 3.2bn. Agrani holds rights to limestone reserves of 335mt. The acquisition is expected to be complete by Q4FY24-end and JKLC expects to set up 1mt/1.5mt of clinker/cement capacity in phase-I.	The Durg conveyor belt has been delayed for longer than expected. Setting up a railway siding at the site will aid the movement of materials.

Source: Company, BOBCAPS Research | RMC: Ready Mix Concrete; TSR – Thermal Substitution Rate; WHRS: Waste Heat Recovery System; UCWL: Udaipur Cement Works Ltd; UP: Uttar Pradesh; GU: Grinding Unit

Fig 2 – Key metrics (standalone)

(Rs mn)	Q4FY24	Q4FY23	YoY (%)	Q3FY24	QoQ (%)
Volumes (mt)	2.6	2.7	(5.4)	2.4	8.3
Cement realisations (Rs/t)	6,122	6,156	(0.5)	6,450	(5.1)
Operating costs (Rs/t)*	5,380	5,707	(5.7)	5,706	(5.7)
EBITDA (Rs/t)	1,080	701	54.1	1,028	5.0

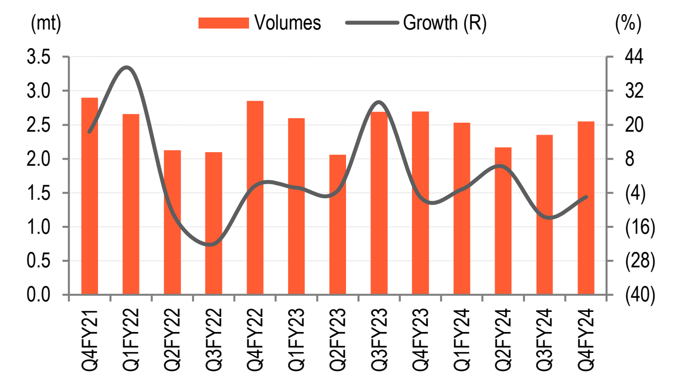
Source: Company, BOBCAPS Research | * Aggregate cost

Fig 3 – Quarterly performance (standalone)

(Rs mn)	Q4FY24	Q4FY23	YoY (%)	Q3FY24	QoQ (%)
Net Sales	**16,478**	**17,289**	**(4.7)**	**15,861**	**3.9**
Expenditure					
Change in stock	(358)	734	NA	(230)	55.8
Raw material	2,660	2,351	13.1	2,618	1.6
Purchased products	2,256	2,053	9.9	1,983	13.8
Power & fuel	849	860	(1.2)	977	(13.0)
Freight	3,200	4,103	(22.0)	3,272	(2.2)
Employee costs	3,207	3,530	(9.1)	3,131	2.4
Other expenses	1,909	1,768	8.0	1,688	13.1
Total Operating Expenses	13,723	15,398	(10.9)	13,439	2.1
EBITDA	**2,755**	**1,891**	**45.7**	**2,422**	**13.7**
EBITDA margin (%)	16.7	10.9	578bps	15.3	145bps
Other Income	180	178	1.1	171	5.5
Interest	209	195	7.4	206	1.8
Depreciation	492	501	(1.9)	512	(3.9)
PBT	2,233	1,373	62.7	1,875	19.1
Non-recurring items	0	0	0.0	0	0.0
PBT (after non-recurring items)	2,233	1,373	62.7	1,875	19.1
Tax	810	400	102.7	635	27.6
Tax Rate (%)	36	29	715bps	34	242bps
Reported PAT	1,424	973	46.3	1,241	14.7
Adjusted PAT	**1,424**	**973**	**46.3**	**1,241**	**14.7**
NPM (%)	8.6	5.6	301bps	7.8	82bps
Adjusted EPS (Rs)	**12.1**	**8.3**	**46.3**	**10.5**	**14.7**

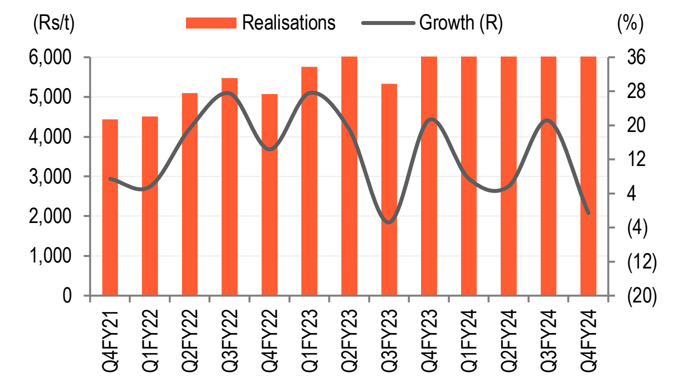
Source: Company, BOBCAPS Research

Fig 4 – Volume gains continue to be limited



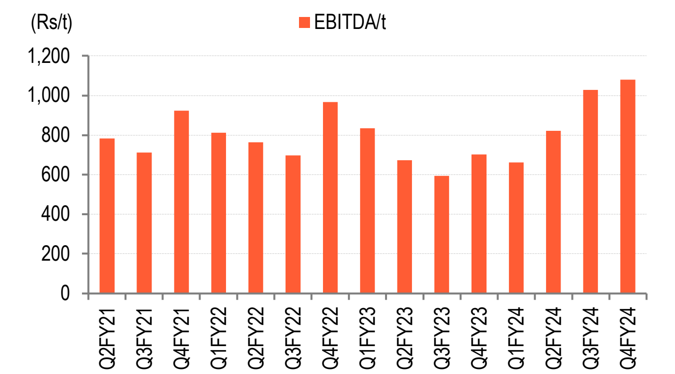
Source: Company, BOBCAPS Research | Volume numbers from Q1FY22 have been restated by management

Fig 5 – Realisation flat despite weak volume



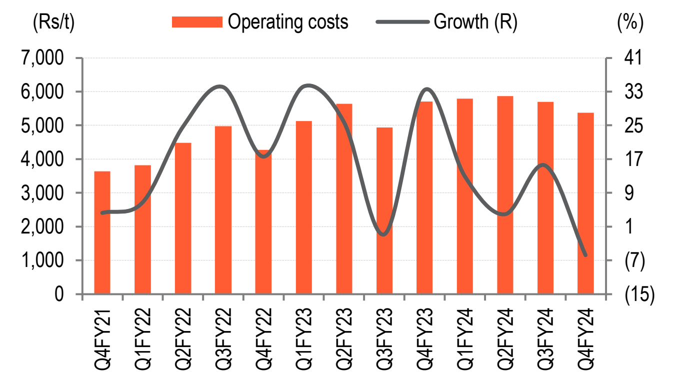
Source: Company, BOBCAPS Research | Volume numbers from Q1FY22 have been restated by management

Fig 6 – Cost savings help EBITDA margin gains



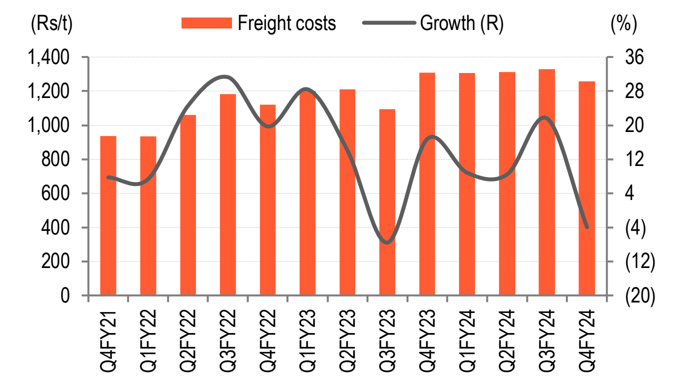
Source: Company, BOBCAPS Research | Volumes numbers from Q1FY22 have been restated by management

Fig 7 – Operating cost savings came from soft fuel cost



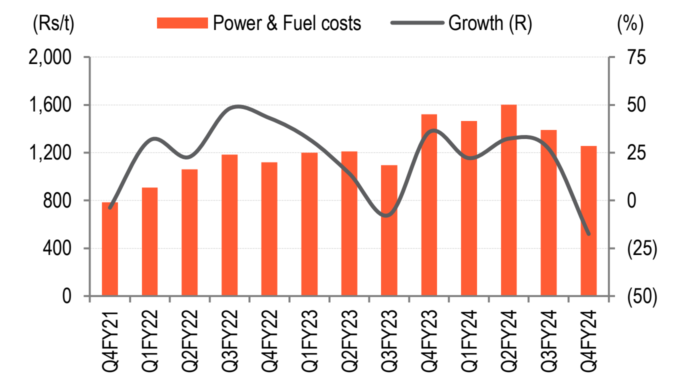
Source: Company, BOBCAPS Research | Volumes numbers from Q1FY22 have been restated by management

Fig 8 – Freight cost savings due to lower lead distance



Source: Company, BOBCAPS Research | Volumes numbers from Q1FY22 have been restated by management

Fig 9 – Fuel cost savings commendable



Source: Company, BOBCAPS Research | Volumes numbers from Q1FY22 have been restated by management

Valuation methodology

We tweak our FY25E EBITDA to factor in a slow H1 but raise our FY26 estimates by ~2.5% and adj. PAT by 2%/5% to factor in the benefit of easing energy costs and other initiatives of cost savings undertaken by the company (railway siding in the Durg facility).

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. Retaining lost market share during the capacity constraint phase will be a key challenge in competitive conditions. We now value JKLC at 9x EV/EBITDA FY26E earnings and at a revised TP of Rs 710 (from Rs 637). We continue our SELL rating on the stock. Growing competition in JKLC's operating regions, balance sheet pressure in the capex phase and weak execution capabilities in the past remain key challenges.

Fig 10 – Revised estimates

(Rs mn)	New		Old		Change (%)	
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Revenue	68,635	71,756	69,777	71,662	(1.6)	0.1
EBITDA	9,769	11,028	9,841	10,760	(0.7)	2.5
Adj PAT	4,892	5,626	4,972	5,372	(1.6)	4.7
Adj EPS (Rs)	41.6	47.8	42.2	45.6	(1.4)	4.8

Source: BOBCAPS Research

Fig 11 – Key assumptions

Parameter	FY23	FY24P	FY25E	FY26E
Volumes (mt)	10.8	9.8	10.6	10.8
Realisations (Rs/t)	5,483	6,360	6,488	6,682
Operating costs (Rs/t)	4,831	5,559	5,554	5,617
EBITDA/t (Rs/t)	634	880	922	1,020

Source: Company, BOBCAPS Research

Fig 12 – Valuation summary

(Rs mn)	FY26E
Target EV/EBITDA (x)	9
EBITDA	11,028
Target EV	99,248
Total EV	99,248
Net debt	15,746
Target market capitalisation	83,503
Target price (Rs/sh)	**710**
Weighted average shares (mn)	118

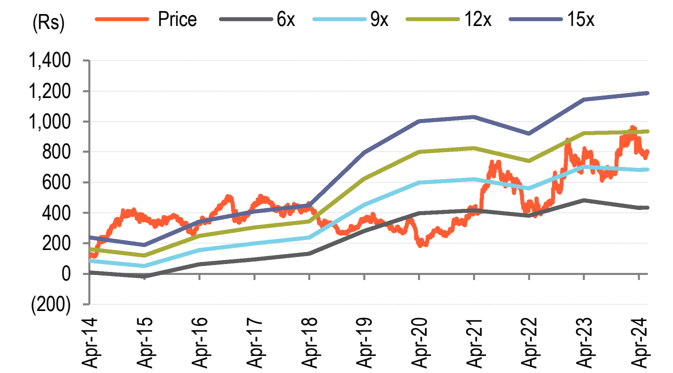
Source: BOBCAPS Research

Fig 13 – Peer comparison

Ticker	Rating	Target Price (Rs)	EV/EBITDA (x)			EV/tonne (US$)			ROE (%)			ROCE (%)		
			FY24P	FY25E	FY26E	FY24P	FY25E	FY26E	FY24P	FY25E	FY26E	FY24P	FY25E	FY26E
JKLC IN	SELL	637	10.3	10.4	10.0	81	84	93	14.4	14.9	15.1	19.1	17.6	16.8
JKCE IN	BUY	4,538	17.2	13.7	12.2	225.0	165.0	137.0	17.0	19.1	19.4	13.6	15.7	16.9
TRCL IN	SELL	763	14.7	12.4	10.5	134	133	135	5.7	7.7	8.9	7.6	9.3	10.7

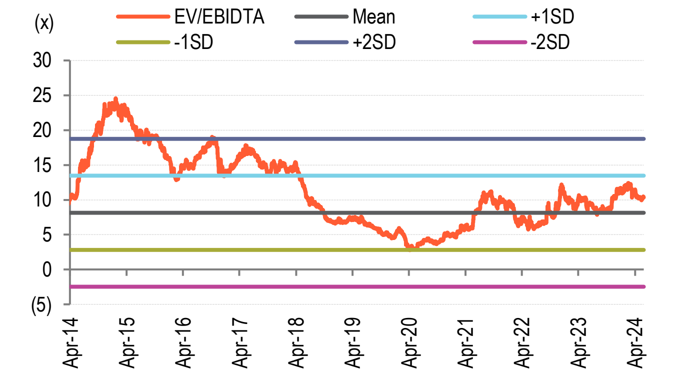
Source: BOBCAPS Research

Fig 14 – EV/EBITDA band: Stock steadily chases the earnings



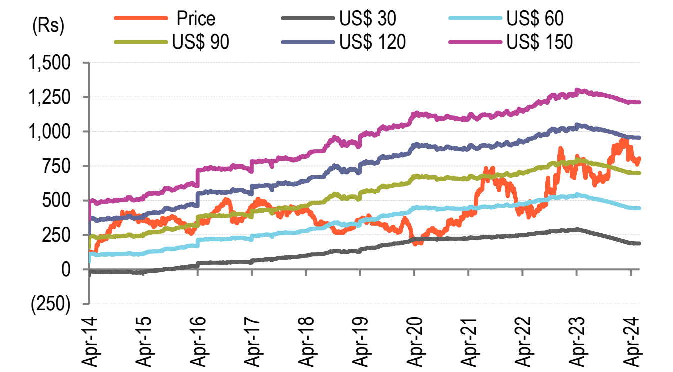
Source: Bloomberg, BOBCAPS Research

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



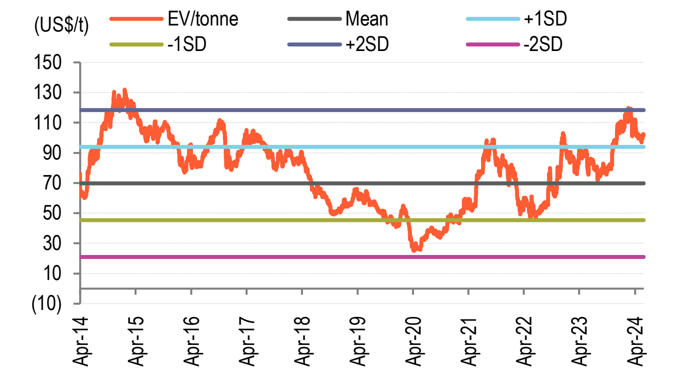
Source: Bloomberg, BOBCAPS Research

Fig 16 – EV/tonne: Replacement cost is at premium



Source: Bloomberg, BOBCAPS Research

Fig 17 – EV/tonne 1Y fwd: Premium likely to soften



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.

Sector recommendation snapshot

Company	Ticker	Market Cap (US$ bn)	Price (Rs)	Target (Rs)	Rating
ACC	ACC IN	5.9	2,571	2,657	HOLD
Ambuja Cements	ACEM IN	15.2	630	580	HOLD
Dalmia Bharat	DALBHARA IN	4.1	1,802	2,346	BUY
JK Cement	JKCE IN	3.8	3,991	4,538	BUY
JK Lakshmi Cement	JKLC IN	1.1	798	710	SELL
Orient Cement	ORCMNT IN	0.5	215	147	SELL
Shree Cement	SRCM IN	11.3	25,635	27,438	HOLD
Star Cement	STRCEM IN	1.1	216	210	HOLD
The Ramco Cements	TRCL IN	2.2	763	763	HOLD
Ultratech Cement	UTCEM IN	35.8	10,179	11,510	BUY

Source: BOBCAPS Research, NSE | Price as of 28 May 2024

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24P	FY25E	FY26E
Total revenue	**50,408**	**60,711**	**63,198**	**68,635**	**71,756**
EBITDA	8,013	7,043	8,637	9,769	11,028
Depreciation	(1,905)	(1,935)	(1,950)	(2,435)	(2,689)
EBIT	6,780	5,730	7,328	8,191	9,237
Net interest inc./(exp.)	(963)	(915)	(872)	(1,036)	(1,293)
Other inc./(exp.)	673	622	640	858	898
Exceptional items	(234)	0	0	0	0
EBT	5,583	4,815	6,456	7,155	7,945
Income taxes	(1,321)	(1,507)	(2,212)	(2,263)	(2,316)
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	0	0	0	0	0
Reported net profit	**4,262**	**3,308**	**4,243**	**4,892**	**5,629**
Adjustments	234	0	0	0	0
Adjusted net profit	**4,496**	**3,308**	**4,243**	**4,892**	**5,629**

Balance Sheet

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24P	FY25E	FY26E
Accounts payables	7,658	7,841	13,603	14,354	14,974
Other current liabilities	7,046	8,724	4,132	9,296	9,573
Provisions	267	156	181	838	863
Debt funds	7,953	5,846	7,668	16,720	18,939
Other liabilities	943	1,596	2,683	198	198
Equity capital	588	588	588	588	588
Reserves & surplus	23,419	25,960	30,226	34,228	38,942
Shareholders' fund	24,523	27,949	30,815	34,816	39,531
Total liab. and equities	**48,390**	**52,112**	**59,081**	**76,222**	**84,078**
Cash and cash eq.	8,869	8,450	12,596	9,054	3,193
Accounts receivables	345	605	402	1,974	1,966
Inventories	4,912	7,004	7,622	7,804	8,060
Other current assets	2,003	4,190	4,159	5,009	5,131
Investments	3,899	4,141	4,196	4,253	4,310
Net fixed assets	27,134	26,943	27,168	39,979	53,756
CWIP	1,127	649	2,801	8,000	7,500
Intangible assets	103	129	137	148	161
Deferred tax assets, net	0	0	0	0	0
Other assets	0	0	0	0	0
Total assets	**48,390**	**52,112**	**59,081**	**76,222**	**84,078**

Cash Flows

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24P	FY25E	FY26E
Cash flow from operations	**3,537**	**2,861**	**8,115**	**8,808**	**8,871**
Capital expenditures	(1,386)	(1,049)	(4,358)	(20,456)	(15,979)
Change in investments	(1,867)	136	(5,258)	4,248	4,942
Other investing cash flows	0	0	0	0	0
Cash flow from investing	**(3,253)**	**(913)**	**(9,616)**	**(16,207)**	**(11,037)**
Equities issued/Others	516	884	(1,400)	0	0
Debt raised/repaid	49	(2,107)	1,822	9,053	2,219
Interest expenses	0	0	0	0	0
Dividends paid	(441)	(588)	(765)	(588)	(588)
Other financing cash flows	(609)	(177)	788	(302)	(326)
Cash flow from financing	**(486)**	**(1,989)**	**444**	**8,162**	**1,304**
Chg in cash & cash eq.	**(202)**	**(41)**	**(1,056)**	**763**	**(861)**
Closing cash & cash eq.	**8,869**	**8,450**	**12,596**	**9,054**	**3,193**

Per Share

Y/E 31 Mar (Rs)	FY22A	FY23A	FY24P	FY25E	FY26E
Reported EPS	36.2	28.1	36.1	41.6	47.8
Adjusted EPS	38.2	28.1	36.1	41.6	47.8
Dividend per share	3.8	5.0	6.5	5.0	5.0
Book value per share	208.4	237.5	261.9	295.9	335.9

Valuations Ratios

Y/E 31 Mar (x)	FY22A	FY23A	FY24P	FY25E	FY26E
EV/Sales	1.8	1.5	1.4	1.5	1.3
EV/EBITDA	11.6	13.0	10.3	10.4	8.4
Adjusted P/E	20.9	28.4	22.1	19.2	16.7
P/BV	3.8	3.4	3.0	2.7	2.4

DuPont Analysis

Y/E 31 Mar (%)	FY22A	FY23A	FY24P	FY25E	FY26E
Tax burden (Net profit/PBT)	76.3	68.7	65.7	68.4	70.9
Interest burden (PBT/EBIT)	85.8	84.0	88.1	87.3	86.0
EBIT margin (EBIT/Revenue)	13.5	9.4	11.6	11.9	12.9
Asset turnover (Rev./Avg TA)	106.1	120.8	113.7	101.5	89.5
Leverage (Avg TA/Avg Equity)	2.1	1.9	1.9	2.1	2.2
Adjusted ROAE	19.6	12.6	14.4	14.9	15.1

Ratio Analysis

Y/E 31 Mar	FY22A	FY23A	FY24P	FY25E	FY26E
YoY growth (%)					
Revenue	15.0	20.4	4.1	8.6	4.5
EBITDA	1.5	(12.1)	22.6	13.1	12.9
Adjusted EPS	13.9	(26.4)	28.3	15.3	15.1
Profitability & Return ratios (%)					
EBITDA margin	15.9	11.6	13.7	14.2	15.4
EBIT margin	13.5	9.4	11.6	11.9	12.9
Adjusted profit margin	8.9	5.4	6.7	7.1	7.8
Adjusted ROAE	19.6	12.6	14.4	14.9	15.1
ROCE	21.6	16.7	19.1	17.6	16.7
Working capital days (days)					
Receivables	2	4	2	11	10
Inventory	36	42	44	42	41
Payables	66	53	91	89	90
Ratios (x)					
Gross asset turnover	1.3	1.5	1.5	1.2	1.0
Current ratio	1.1	1.2	1.4	1.0	0.7
Net interest coverage ratio	7.0	6.3	8.4	7.9	7.1
Adjusted debt/equity	0.3	0.2	0.2	0.5	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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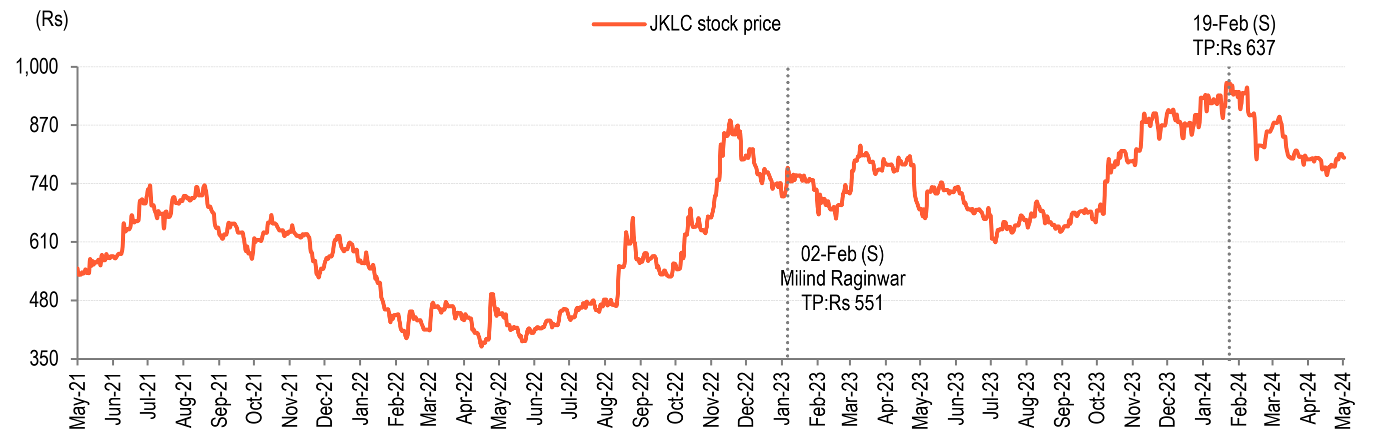
Ratings and Target Price (3-year history): JK LAKSHMI CEMENT (JKLC IN)



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