

May 20, 2022

Higher renewables share, controlled costs lift margin

About the stock: JK Lakshmi mainly caters to north, west & eastern markets with total capacity of 13.3 MT (including subsidiary). It has integrated units at Sirohi, Udaipur (Rajasthan) and Durg (Chhattisgarh) while grinding units are located at Jhajjar (Haryana), Cuttack (Odisha), Kalol and Surat (Gujarat).

- It also has 105 MW power plant (74 MW CPP, 21 MW WHRS, and 10 MW solar) that fulfils its 75% of total power requirements
- The company is now adding 2.5 MT cement capacity (1.5 MT clinker) through its subsidiary unit UCWL at a cost of ~₹ 1650 crore

Q4FY22 Results: The results were better than estimates, especially on the margins front due to lower than expected fuel and other expenses.

- Revenues were up 13.3% YoY to ₹ 1497.6 crore (vs. I-direct estimate: ₹ 1448 crore) led by sales volume growth of 6.9% YoY to 3.1 MT
- Absolute EBITDA improved 3.1% YoY to ₹ 276.2 crore (up 88.7% QoQ). EBITDA margin of 18.4% was far higher than I-direct estimate of 10.7%
- PAT of ₹ 59.2 crore was down 42.1% YoY (vs. our estimate: ₹ 53.6 crore)

What should investors do? Given the higher renewable share in the energy mix, the company is in a better position to mitigate the cost related challenges. However, growth to remain a concern till the time new capacity gets commissioned

- Post sharp recent rally, we downgrade our rating from BUY to HOLD

Target Price and Valuation: We value it at ₹ 580 i.e. 6.5x FY24E EV/EBITDA.

Key triggers for future price performance:

- With capacity utilisation of 90%+, volume growth to moderate, going forward, as the new capacity will come on stream only by Q4FY24E
- The recent commissioning of 10 MW WHRS (total capacity now 33 MW) along with increased share of alternate fuels (14%) to help contain cost pressure to some extent in the wake of higher fuel prices
- B/S strength to remain healthy despite ongoing capex of ~₹ 1650 crore for its subsidiary unit UCWL

Alternate Stock Idea: Apart from JK Lakshmi, in our cement sector coverage we also like another north based player Mangalam Cement.

- The enhanced clinker capacity to drive growth, going forward. The benefit of various incentives to provide cost advantage.
- BUY with a target price of ₹ 425/share



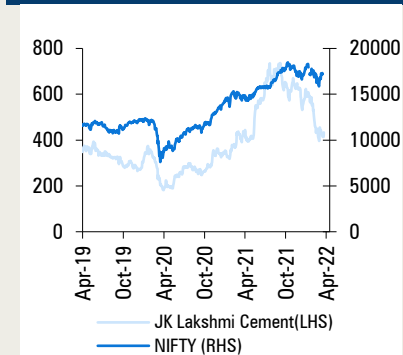
Particulars

Particular	Amount
Mcap	₹ 5944 crore
Debt (FY22)	₹ 1207 crore
Cash & Invest (FY22)	₹ 886 crore
EV	₹ 6265 crore
52 week H/L	₹816 / ₹ 366
Equity cap	₹ 59 crore
Face value	₹ 5

Shareholding pattern

(in %)	Jun-21	Sep-21	Dec-21	Mar-22
Promoter	46.21	46.01	46.01	46.31
FII	10.26	12.48	12.97	12.29
DII	28.42	26.16	24.96	25.87
Others	15.11	15.35	16.06	15.53

Price Chart



Key risks

- Any delay in commissioning of new capacities
- Sharp decline in prices of key inputs like coal/petcoke

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Key Financial Summary

Key Financials	FY19	FY20	FY21	FY22	3 Year CAGR (%)	FY23E	FY24E	2 Year CAGR (%)
Net Sales	3882	4044	4385	5041	9.1	5661	5926	8.4
EBITDA	415	672	790	801	24.5	833	1070	15.6
EBITDA (%)	10.7	16.6	18.0	15.9		14.7	18.1	
PAT	80	235	364	426	75.0	367	526	11.1
EPS (₹)	6.8	22.6	33.5	38.2		31.2	44.7	
EV/EBITDA	17.3	10.3	7.9	7.8		7.9	5.8	
EV/Tonne (\$)	96	0	0	0		71	67	
RoNW	5.2	15.5	19.0	18.3		14.8	17.9	
RoCE	9.3	17.1	21.1	18.1		17.8	21.9	

Source: Company, ICICI Direct Research

Key performance highlights

- Sales volumes were at 3.14 MT (up 6.9% YoY, 27.9%QoQ). The end of transporters strike in Chhattisgarh that affected dispatches for 17 days in Q3 led to sharp sequential jump in the sales volume. Realisations were up 5.9% YoY (down 1.8% QoQ) to ₹ 4763/t below our estimates (₹4,950/t)
- On the positive side, the total production cost per tonne was down 8.8% QoQ to ₹ 3885/t mainly due to drop in P&F costs and other costs and higher blending ratio. P&F costs were down 18.5% QoQ to ₹ 971/t led by higher usage of low cost fuel inventory, increased share of alternate fuels and WHRS capacity. Other costs were down due to reduction in IPL related advertisement expenses
- The company reported EBITDA/t of ₹ 879/tonne (vs. I-direct estimate: ₹ 528/t). Absolute EBITDA came in at ₹ 276.2 crore (up 3.1% YoY, 89% QoQ) vs. our estimated EBITDA of ₹ 154.3 crore
- PAT came in at ₹ 171.7 crore (I-direct estimate: ₹ 74 crore). It was up 25.8% YoY and 189.9% on a QoQ basis
- The company's subsidiary Udaipur Cement Works is expanding its cement capacity by 2.5 MT. It is likely to be commissioned in March 24E. On completion of this expansion, consolidated capacity of JKLC and UCWL will get enhanced to 16.4 MT

Key conference call highlights

Demand: Demand has moderated in April 2022 due to harvesting season that led to shortage of construction labours. Further higher temperature in Haryana and Rajasthan slowed down construction work.

Cement prices & cost: Cement price has increased ₹ 25-30//bag in the north during April 2022. In East, prices have increased by ₹ 15-20/bag. Further price hikes of ₹ 15/bag required to offset cost pressure. Fuel consumption costs came down to ₹ 9000/t vs. ₹ 9500/t in Q3 due to change in fuel mix, increased WHRS and usage of low cost inventory. At current spot prices, power & fuel cost may increase further by 25%. However, at company level, expect 7-8% increase in the P&F in Q1FY23E.

Capex at Company: At JKLC, no expansion currently. 10 MW WHRS has been commissioned. Expect annual cost savings of ₹ 22-24 crore. Total WHRS capacity is now at 33 MW and share of renewable power is now 40%.

Capex at subsidiary- UCWL completed de-bottlenecking and expanded clinker capacity by 0.3 MT to 1.5 MT and cement by 0.6 MT to 2.2 MT. It is now undergoing ₹ 1,650 crore expansion. To add 2.5 MT cement and 1.5 MT clinker capacities (financed via debt and equity in the ratio of 2:1). The financial closure with the bank has already happened with loan tenure of 15 years including first four years of moratorium. The company plans to spend ₹ 200 crore and ₹ 1000 crore in FY22E and FY23E, respectively, towards capex and balance to be spend in FY24E. Likely commissioning is March 2024.

On merger of JKLC & UCWL: Currently no plans of merger between UCWL and JKLC due to difference in the tax rates (UCWL @ 25% & JKLC @ 34%)

Debt position: Consolidated gross debt was at ~₹ 1856 crore while net debt was at ~₹ 650 crore.

Others: Trade sales at 56%. Fuel mix – 30% coal, 56% petcoke and 14% biomass. Lead distance – 395 km. Blending ratio – 55%. MAT credit balance left is ₹ 260 crore, ₹ 44 crore consumed in FY22.

Key triggers for future price performance

To add 2.5 MT cement capacity through its subsidiary in Rajasthan: With capacity utilisation reaching over 90%, the company will now be adding cement capacity of 2.5 MT (1.5 MT clinker) at its existing plant in Udaipur unit (through subsidiary company Udaipur Cement Works) with total capex of ₹ 1650 crore. The same is likely to get commissioned by end of Q4FY24E. Ramp up of capacities in Durg in the past four years has led to the company generating annual OCF of over ~₹ 400 crore. Further, with liquidity buffer of ₹ 337 crore, we believe the company is in a better position to fund this new expansion.

Focus on cost reductions to drive further efficiency: Being predominantly North (8.2 MT) and central (3.5 MT) player, the company has got a structural advantage of a balanced environment in these two high growing regions. Further, self-sufficiency in power, through captive power plant (CPP) of 54 MW, waste heat recovery (WHR) plant of 33 MW and solar power plant of 6 MW has helped JKLC to reduce reliance on costly grid power. In the eastern region, the company has 7 MW WHR plant and has recently commissioned CPP of 20 MW to become self-sufficient. To reduce the freight cost, it has added 0.8 MT grinding unit in FY20 in Odisha. Proximity to market and self-sufficiency in power would continue to ensure improved cost efficiency.

Valuation & Outlook: While the company may remain laggard in terms of growth during FY22-24E due to delayed capacity expansion (likely commissioning Q4FY24E), the focus on bringing more efficiency through increased share of renewables, higher blending and maintaining BS strength remains key positive. Post recent rally, we now downgrade our rating to **HOLD** with an unchanged target price of ₹ 580/share (@ 6.5x FY24EV/EBITDA).

Exhibit 1: Variance analysis

Particulars	Q4FY22	Q4FY22E	Q4FY21	YoY (%)	Q3FY22	QoQ (%)	Comments
Net Sales	1497.6	1447.9	1322.0	13.3	1,193.4	25.5	Capacity utilisation remained better than industry at over 90%
EBITDA	276.2	154.3	267.9	3.1	146.4	88.7	
EBITDA Margin (%)	18.4	10.7	20.3	-182 bps	12.3	618 bps	
PAT	171.7	74.0	136.5	25.8	59.2	189.9	

Key Metrics

Volume (MT)	3.14	2.93	2.94	6.9	2.46	27.9
Realisation (₹)	4,763	4,950	4,497	5.9	4,853	-1.8
EBITDA per Tonne (₹)	879	528	911	-3.6	595	47.6

Pet tonne cost

	Q4FY22	Q4FY22E	Q4FY21	YoY (%)	Q3FY22	QoQ (%)
Raw Material Expenses	1,270	1,120	1,082	17.5	1,100	15.5
Employee Expenses	229	305	269	-14.9	353	-35.0
Power and fuel	971	1,282	772	25.7	1,192	-18.5
Freight	1,018	1,080	923	10.3	1,011	0.7
Others	396	635	539	-26.5	601	-34.2
Total	3,885	4,422	3,585	8.4	4,258	-8.8

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹ Crore)	FY23E			FY24E			Comments
	Old	New	% Change	Old	New	% Change	
Revenue	5,344.5	5,661.1	5.9	NA	5,925.6	NA	
EBITDA	855.9	833.4	-2.6	NA	1,000.6	NA	
EBITDA Margin (%)	16.0	14.7	-129 bps	NA	16.9	NA	
PAT	412.0	366.7	-11.0	NA	481.0	NA	
EPS (₹)	35.0	31.2	-11.0	NA	40.9	NA	

Source: Company, ICICI Direct Research

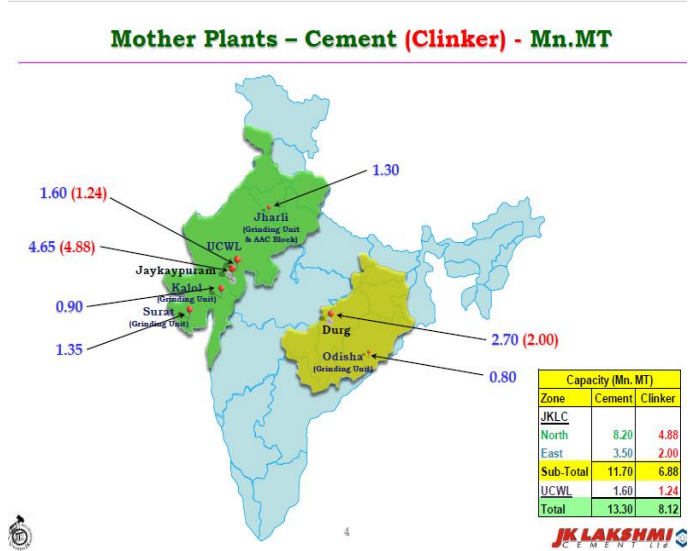
Financial story in charts

Exhibit 3: Clinker and cement capacity

	State	Region	Capacity		
			FY21	FY22	FY24E
Clinker capacity (Standalone)			6.9	6.9	6.9
Standalone Cement Capacity					
	Rajasthan	North	4.7	4.7	4.7
	Gujarat	West	0.9	0.9	0.9
	Haryana	North	1.3	1.3	1.3
	Chhattisgarh	East	2.7	2.7	2.7
	Gujarat	West	1.3	1.3	1.3
	Odisha	East	0.8	0.8	0.8
Total cement capacity [A]			11.7	11.7	11.7
Rajasthan (Subsidiary)					
			1.2	1.5	3.0
Clinker capacity					
		West	1.6	2.2	4.7
Total Capacity [A+B]			13.3	13.9	16.4

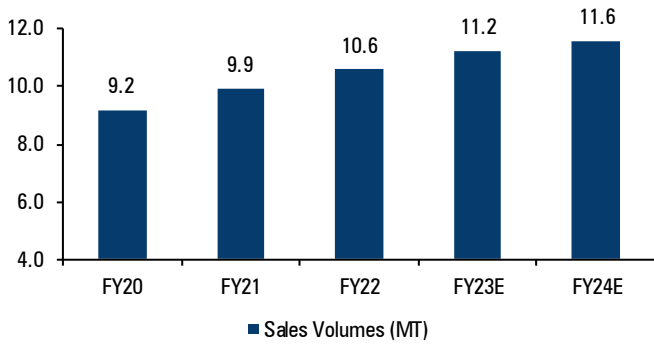
Source: Company, ICICI Direct Research

Exhibit 4: Location wise cement capacity



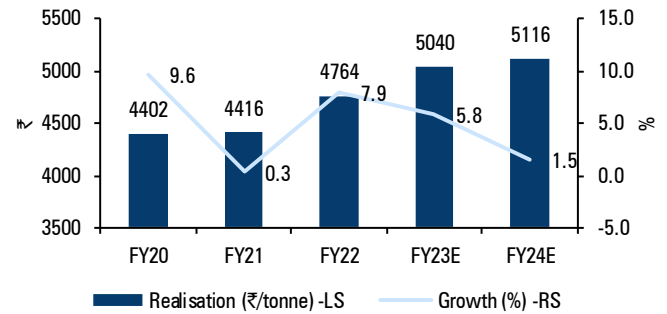
Source: Company, ICICI Direct Research

Exhibit 5: Volumes to grow at 4.6% CAGR over FY22-24E



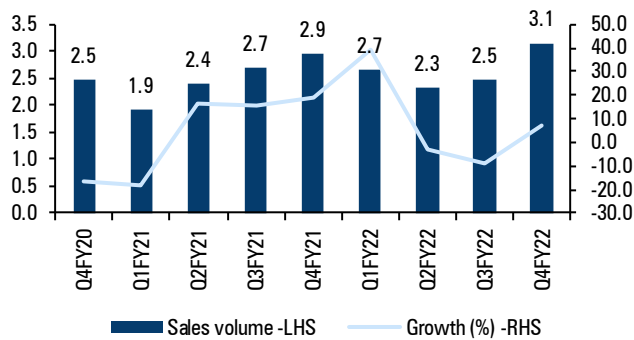
Source: Company, ICICI Direct Research

Exhibit 6: Realisations to improve gradually to offset the cost pressure



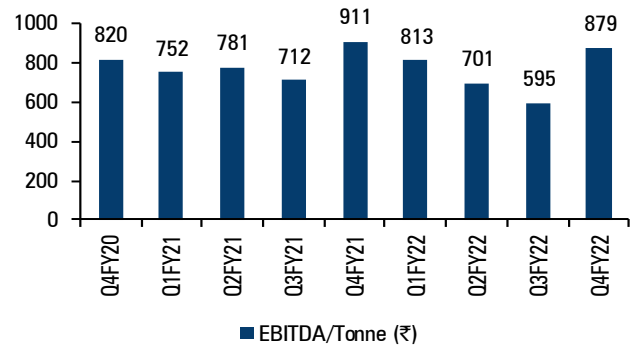
Source: Company, ICICI Direct Research

Exhibit 7: Volumes improve 6.9% YoY in Q4FY22



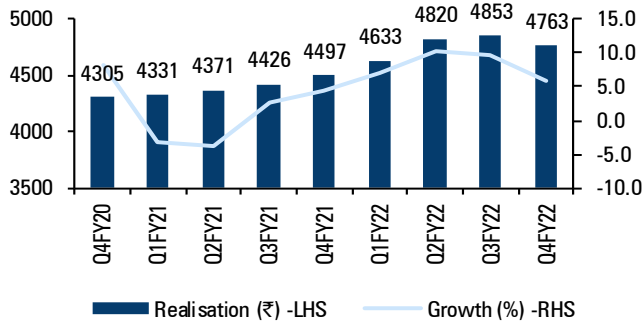
Source: Company, ICICI Direct Research

Exhibit 8: ..EBITDA/t improves sharply on controlled costs



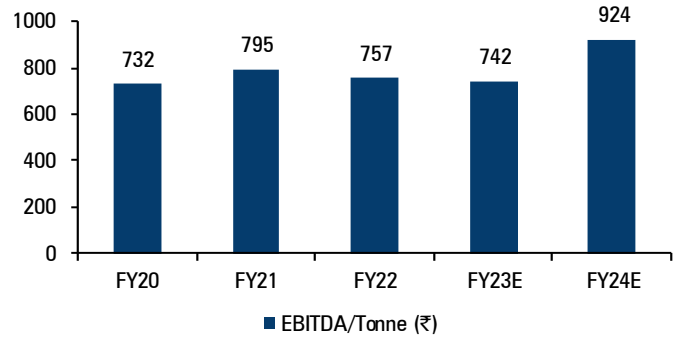
Source: Company, ICICI Direct Research

Exhibit 9: Realisations down 1.8% QoQ



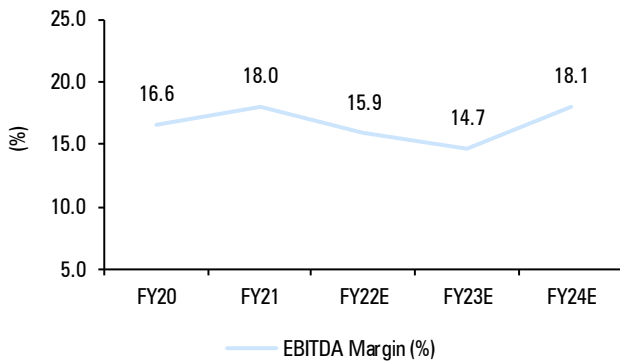
Source: Company, ICICI Direct Research

Exhibit 10: EBITDA/t trend



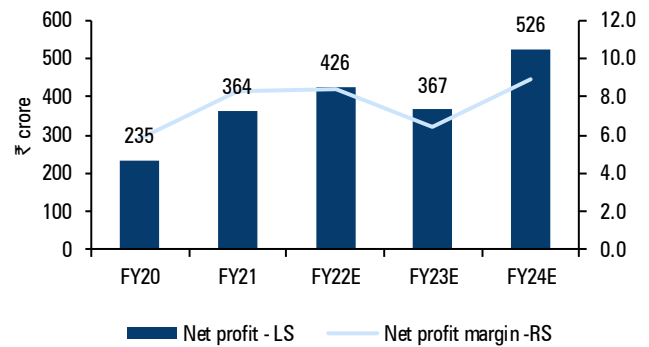
Source: Company, ICICI Direct Research

Exhibit 11: Margins to improve in FY24E on likely stabilisation of fuel prices



Source: Company, ICICI Direct Research

Exhibit 12: PAT to improve led by improving operating profits



Source: Company, ICICI Direct Research

Financial Summary

Exhibit 13: Profit & Loss Account (standalone)					
(Year-end March)	FY20	FY21	FY22	FY23E	FY24E
Operating Income	4,043.5	4,384.7	5,040.8	5,661.1	5,925.6
Growth (%)	4.2	8.4	15.0	12.3	4.7
Raw material	952.4	1083.9	1238.3	1213.1	1251.0
Power & Fuel	843.9	779.8	1065.6	1321.1	1332.0
Employees	303.1	327.0	326.4	384.1	396.1
Freight	817.6	883.2	1042.8	1179.4	1216.2
Others	454.2	521.2	566.3	730.1	660.2
Total Expenses	3,371.1	3,595.0	4,239.5	4,827.7	4,855.6
EBITDA	672.4	789.7	801.3	833.4	1,070.1
Growth (%)	52.2	17.5	1.5	4.0	28.4
Depreciation	188.4	194.2	190.5	192.3	194.1
Interest	163.6	142.5	96.3	130.7	120.7
Other Income	49.3	74.6	67.3	52.0	52.0
Exceptional items	30.2	30.9	23.4	0.0	0.0
PBT	339.5	496.7	558.3	562.4	807.2
Total Tax	104.2	132.8	132.1	195.7	280.9
PAT	235.2	363.9	426.3	366.7	526.3
Adjusted PAT	265.5	394.9	449.7	366.7	526.3
Growth (%)	233.6	48.8	13.9	-18.5	43.5
Adjusted EPS (₹)	22.6	33.5	38.2	31.2	44.7

Source: Company, ICICI Direct Research

Exhibit 15: Balance Sheet summary					
(Year-end March)	FY20	FY21	FY22	FY23E	FY24E
Liabilities					
Equity Capital	58.9	58.9	58.9	58.9	58.9
Reserve and Surplus	1,649.8	2,020.0	2,393.5	2,426.7	2,882.0
Total Shareholders func	1,708.7	2,078.9	2,452.4	2,485.6	2,940.9
Total Debt	1,398.0	1,034.2	1,207.5	1,307.5	1,207.5
Deferred Tax Liability	18.7	64.1	94.3	94.3	94.3
Other non-current liabilit	181.3	185.9	124.2	124.2	124.2
Total Liabilities	3,306.7	3,363.1	3,878.4	4,011.6	4,366.9
Assets					
Gross Block	5,121.2	5,169.1	5,436.9	5,710.1	5,710.1
Less: Acc Depreciation	2,333.1	2,527.3	2,717.7	2,910.0	3,104.2
Net Block	2,788.1	2,641.8	2,719.2	2,800.1	2,605.9
Capital WIP	151.0	227.5	113.1	90.0	70.0
Total Fixed Assets	2,939.1	2,869.3	2,832.3	2,890.1	2,675.9
Investments	416.9	367.3	548.6	548.6	548.6
Inventory	412.8	315.5	491.2	563.5	540.5
Debtors	88.2	53.7	34.5	89.6	7.8
Loans and Advances	274.9	293.1	173.8	505.5	679.6
Non current Investment	383.1	403.5	421.3	421.3	421.3
Cash	29.3	359.1	337.2	95.4	374.9
Total Current Assets	1,188.3	1,424.7	1,458.0	1,675.3	2,024.1
Creditors	1,220.7	1,279.6	933.9	1,082.4	865.7
Provisions	16.9	18.6	26.7	20.0	16.0
Total Current Liabilities	1,237.6	1,298.3	960.6	1,102.5	881.7
Net Current Assets	-49.4	126.5	497.4	572.9	1,142.3
Application of Fund	3,306.7	3,363.1	3,878.4	4,011.6	4,366.9

Source: Company, ICICI Direct Research

Exhibit 14: Cash flow statement					
(Year-end March)	FY20	FY21	FY22	FY23E	FY24E
Profit after Tax	235.2	363.9	426.3	366.7	526.3
Add: Depreciation	188.4	194.2	190.5	192.3	194.1
(Inc)/dec in Current Assets	-80.8	131.8	-156.5	-127.4	104.8
Inc/(dec) in CL and Prov.	93.4	60.6	-337.7	141.9	-220.7
CF from operations	436.2	750.6	122.6	573.4	604.5
(Inc)/dec in Investments	-80.4	29.3	-199.2	0.0	0.0
(Inc)/dec in Fixed Assets	-77.4	-124.4	-153.5	-250.0	20.0
Others	0.7	30.1	87.8	-331.8	-174.0
CF from investing	-157.1	-65.1	-264.9	-581.8	-154.0
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	-214.9	-363.8	173.3	100.0	-100.0
Dividend paid	0.0	-53.2	-71.0	-56.8	-71.0
Inc/(dec) in Sec. premium	0.0	0.0	0.0	0.0	0.0
Others	-51.2	59.5	18.2	-276.7	0.0
CF from financing	-266.1	-357.5	120.5	-233.5	-171.0
Net Cash flow	13.1	328.0	-21.9	-241.8	279.5
Opening Cash	18.0	29.3	359.1	337.2	95.4
Closing Cash	31.1	357.3	337.2	95.4	374.9

Source: Company, ICICI Direct Research

Exhibit 16: Ratio sheet					
(Year-end March)	FY20	FY21	FY22	FY23E	FY24E
Per share data (₹)					
Adjusted EPS	22.6	33.5	38.2	31.2	44.7
Cash EPS	36.0	47.4	52.4	47.5	61.2
BV	145.2	176.6	208.4	211.2	249.9
DPS	0.0	3.8	5.0	4.0	5.0
Cash Per Share	2.5	30.5	28.6	8.1	31.8
Operating Ratios (%)					
EBITDA Margin	16.6	18.0	15.9	14.7	18.1
PAT Margin	5.8	8.3	8.5	6.5	8.9
Inventory days	32.7	30.3	29.2	34.0	34.0
Debtor days	8.9	5.9	3.2	4.0	3.0
Creditor days	105.5	104.1	80.1	65.0	60.0
Return Ratios (%)					
RoE	15.5	19.0	18.3	14.8	17.9
RoCE	17.1	21.1	18.1	17.8	21.9
RoIC	17.9	24.7	21.2	19.6	26.0
Valuation Ratios (x)					
P/E	24.9	16.1	13.7	16.0	11.1
EV / EBITDA	10.1	7.8	7.7	7.8	5.7
EV / Net Sales	1.7	1.4	1.2	1.2	1.0
Market Cap / Sales	1.4	1.3	1.2	1.0	1.0
Price to Book Value	3.8	3.4	2.8	2.4	2.4
Solvency Ratios					
Debt/EBITDA	2.1	1.3	1.5	1.6	1.1
Debt / Equity	0.8	0.5	0.5	0.5	0.4
Current Ratio	0.7	0.8	1.1	1.1	1.8
Quick Ratio	0.6	0.5	0.7	1.1	1.4

Source: Company, ICICI Direct Research

Exhibit 17: ICICI Direct coverage universe (Cement)

Company	CMP			EPS (₹)			EV/EBITDA (x)			EV/Tonne (\$)			RoCE (%)			RoE (%)		
	(₹)	TP (₹)	Rating	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E
UltraTech Cem	6,020	8,000	BUY	185	245	197	18.2	17.9	17.6	217	214	210	14.7	14.2	13.6	12.7	14.4	10.6
Shree Cement	21,980	25,700	HOLD	641	620	596	22.0	23.2	21.9	257	260	224	18.2	16.1	14.8	15.2	13.1	11.4
Heidelberg Cem	186	225	HOLD	14	8	11	9.8	13.0	11.0	107	106	103	20.1	15.7	19.7	21.1	12.6	15.2
JK Cement	2,392	2,640	HOLD	78	99	77	15.2	15.6	17.5	155	184	161	18.6	16.7	13.2	20.6	17.5	12.2
JK Lakshmi Cen	505	580	HOLD	31	36	31	7.9	7.8	7.9	67	68	71	21.1	18.1	17.8	19.0	18.3	14.8
Birla Corp	1,015	1,320	HOLD	88	35	41	9.7	12.8	10.6	119	93	91	10.8	6.5	7.2	12.4	5.0	5.5
Ramco Cement	700	900	BUY	32	24	25	14.2	18.1	17.2	162	168	160	8.6	6.4	6.2	13.5	9.3	8.7
Sagar Cement	220	265	BUY	16	5	9	8.2	13.9	8.2	82	66	54	15.3	6.6	9.5	15.4	4.7	6.7

Source: Company, ICICI Direct Research, *ACC and Ambuja FY20=CY19, FY21E=CY20E, FY22E=CY21E

RATING RATIONALE

ICICI Direct endeavours to provide objective opinions and recommendations. ICICI Direct assigns ratings to its stocks according to their notional target price vs. current market price and then categorizes them as Buy, Hold, Reduce and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock

Buy: > 15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: < -15%



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