



3R MATRIX

	+	=	-
Right Sector (RS)	✓	■	■
Right Quality (RQ)	■	✓	■
Right Valuation (RV)	✓	■	■
+ Positive = Neutral - Negative			

What has changed in 3R MATRIX

	Old		New
RS	■	↔	■
RQ	■	↔	■
RV	■	↔	■

ESG Disclosure Score NEW

ESG RISK RATING
Updated Feb 08, 2022 **35.37**

High Risk

NEGL	LOW	MED	HIGH	SEVERE
0-10	10-20	20-30	30-40	40+

Source: Morningstar

Company details

Market cap:	Rs. 4,967 cr
52-week high/low:	Rs. 815/369
NSE volume: (No of shares)	1.7 lakh
BSE code:	500380
NSE code:	JKLAKSHMI
Free float: (No of shares)	6.3 cr

Shareholding (%)

Promoters	46.3
FII	12.3
DII	25.9
Others	15.5

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-5.2	-6.2	-32.3	-9.6
Relative to Sensex	2.3	2.2	-22.6	-16.1

Sharekhan Research, Bloomberg

JK Lakshmi Cement Ltd

A strong come back quarter; Retain Buy

Cement	Sharekhan code: JKLAKSHMI		
Reco/View: Buy	↔	CMP: Rs. 422	Price Target: Rs. 600
↑ Upgrade	↔ Maintain	↓ Downgrade	

Summary

- We retain our Buy rating on JK Lakshmi Cement with a revised PT of Rs. 600 lowering valuations multiple to factor in near term energy-related uncertainties and considering favourable valuation.
- JKL reported a strong beat on operational parameters for Q4FY2022 led by higher-than-expected volume growth along with reduction in cost of production.
- Management expects further improvement in operational profitability going ahead led by operational efficiencies provided energy costs do not play a major spoilsport.
- UCW expansion at Rs. 1650 crore capex remain on track for FY2024 end commissioning and would provide next leg of growth from FY2025.

JK Lakshmi Cement Limited (JKL) reported strong operational performance beat for Q4FY2022. Its standalone revenues at Rs. 1495 crore (up 13.3% y-o-y) was led by 8.3% y-o-y rise in volumes and 4.6% y-o-y rise in blended realizations. EBITDA/tonne at Rs. 879 (down 5% y-o-y, up 48% q-o-q) positively surprised (our estimate of Rs. 674/tonne) led by a sequential dip in power & fuel costs (down 18.5% q-o-q on a per tone basis led by 10MW WHRS commissioning and higher usage of alternate fuels) and other expense (down 27%/34% y-o-y/q-o-q owing to lower fixed costs, non-occurrence of IPL expense and lower ad spend). Overall standalone operating profit/adjusted net profit rose by 3%/16.5% y-o-y at Rs. 276 crore/Rs. 195 crore, much higher than our estimate. The management expects higher EBITDA/tonne for FY2023 y-o-y led by operational efficiencies provided power & fuel costs do not play further spoilsport. The 2.5MTPA integrated grinding unit at UCW is on track to complete by the end of FY2024 at a cost of Rs. 1650 crore.

Key positives

- Sales volume for Q4FY2022 were up 8.3% y-o-y to 3.11 lakh tonnes.
- EBITDA/tonne for Q4FY2022 positively surprised at Rs. 879 versus our expectation of Rs. 674/tonne led by sharp reduction in power & fuel cost and other expenses q-o-q on per tone basis.

Key negatives

- Demand in North remained weak during April to first week of May being harvest season. Demand in Gujarat was affected in first 15 days of May due to aggregate suppliers' strike.
- Cost of power & fuel may increase 7-8% q-o-q in Q1FY2023. The power & fuel costs would be higher by 25% or Rs. 200/tonne at current procurement costs. 200/tonne.

Management Commentary

- In April 2022, the company saw Rs. 25-30 per bag increase in cement prices in North and Rs. 15-20 per bag in East. The price hikes have sustained during May 2022.
- It targets increasing blending and trade ratios by 4-5% per annum. It would be putting up solar capacities at various locations and focusing on continuous freight costs reduction.
- The Rs. 1650 crore UCW expansion project cost will be funded by Rs. 1100 crore debt and Rs. 550 crore equity. Out of Rs. 550 crore equity, UCW would fund Rs. 100-120 crore through internal accruals while Rs. 450 crore would be funded through rights issue.

Revision in estimates – We have marginally revised our estimates upwards for FY2023-FY2024 factoring improved operational profitability.

Our Call

Valuation – Retain Buy with a revised PT of Rs. 600: JKL is expected to improve upon its operational profitability going ahead through various operational efficiency measures like setting up solar capacities, reducing freight costs, increasing blending ratios among others. However, volatility in energy costs remain a key near term headwind for the sector and the company. Its upcoming capacity at UCW is expected to provide next leg of growth although from FY2025 onwards. It is currently trading at an undemanding valuation of EV/EBITDA of 4x its FY2024E earnings. Hence, we retain Buy on the stock with a revised price target (PT) of Rs. 600 lowering valuation multiple on account of near term energy related uncertainties.

Key Risks

Weak demand in North and East India along with weak pricing negatively affects profitability.

Particulars	FY21	FY22	FY23E	FY24E
Revenue	4,385	5,041	5,578	5,986
OPM (%)	18.0	15.9	16.1	16.1
Adjusted PAT	364	426	479	533
% y-o-y growth	55	17	12	11
Adjusted EPS (Rs.)	33.5	38.2	40.7	45.3
P/E (x)	12.6	11.1	10.4	9.3
P/B (x)	2.4	2.0	1.7	1.5
EV/EBITDA (x)	6.3	5.8	4.6	3.8
RoNW (%)	20.8%	19.8%	18.0%	17.2%
RoCE (%)	15.2%	15.3%	14.7%	14.8%

Source: Company; Sharekhan estimates

Strong beat on operational profitability

JK Lakshmi Cement reported standalone net revenues growth of 13.3% y-o-y at Rs. 1498 crore which was higher than our estimates. Cement volumes were up 8.3% y-o-y (+27.9% q-o-q) which was higher than our expectation. Blended realizations were up 4.6% y-o-y (-1.8% q-o-q). Blended standalone EBITDA/T at Rs. 879 (-4.8% y-o-y, +47.6% q-o-q) was much higher than our estimate of Rs. 674/T. Higher than expected EBITDA/T was led primarily by lower than expected power & fuel costs and other expense during the quarter. The power & fuel costs stood at Rs. 971/T (+24.2% y-o-y, -18.5% q-o-q), freights costs at Rs. 1018/T (+9% y-o-y, +0.7% q-o-q) and other expense at Rs. 396/T (-27% y-o-y, -34% q-o-q) for Q4FY2022. Lower than expected interest expense (-27% y-o-y, -13% q-o-q) and lower effective tax rate (11.8% versus 23% in Q4FY2021) led to adjusted standalone net profit growth of 16.5% y-o-y (+229% q-o-q) at Rs. 195 crore (adjusted for Rs. 23 crore exceptional item) which was much higher than our estimate. The company completed 10 MW Waste Heat Recovery Power Project at Sirohi taking the total WHR capacity to 33MW.

UCW capacity expansion on track

Udaipur Cement Works (UCW), its listed subsidiary is embarking on Rs. 1650 crore capex plan which would increase its clinker capacity to 3MT (from 1.5MT) and cement capacity to 4.7MT (from 2.2MT) is expected to commission by March 2024. The company has zeroed down to setting up 2.5MTPA cement grinding unit at mother plant (versus earlier thought for split grinding units at two locations) along with 1.5MTPA clinker and 7-8MW WHRS. The project would have debt of Rs. 1100 crore and equity of Rs. 550 crore. Out of Rs. 550 crore equity requirement, UCW would fund Rs. 100-120 crore through internal accruals while Rs. 450 crore would be funded through rights issue. JK Lakshmi standalone entity would be only providing for its share of subscription to the rights issue.

Key Conference call takeaways

- ◆ **Price hikes:** In April 2022, the company saw an increase of Rs. 25-30 per bag in cement prices in the North and Rs. 15-20 per bag in East. The price hikes have sustained during May 2022. It would need minimum Rs. 15/bag increase in cement price for compensating freight cost increase.
- ◆ **April-May demand outlook:** The April month till the first week of May saw a weak demand as it was the harvesting season and the late arrival of labour. During the first 15 days of May, the aggregate supply strike in Gujarat affected demand although it has been called off. The Eastern region's demand was relatively good.
- ◆ **Company outlook:** It expects EBITDA/tonne to improve y-o-y for FY2023 if power & fuel costs do not play a major spoilsport. It targets to increase blending ratio and trade ratio by 4-5% per annum. It would be putting up solar capacities at various locations. It would focus on continuous reduction in freight costs. It has limestone availability at both Durg and Sirohi for standalone capacity expansion.
- ◆ **UCW expansion:** The company has zeroed down to setting up a 2.5MTPA cement grinding unit at the mother plant (versus earlier thought for split grinding units at two locations) along with 1.5MTPA clinker and 7-8MW WHRS. The total cost of the project is Rs. 1650 crore. The entire 2.5MTPA GU will be operational by March 2024 while the 1.5MTPA clinker unit by December 2023.
- ◆ **UCW expansion funding:** The Rs. 1650 crore project cost will be funded by 2:1 debt:equity with Rs. 1100 crore debt and Rs. 550 crore equity. Out of Rs. 550 crore equity requirement, UCW would fund Rs. 100-120 crore through internal accruals while Rs. 450 crore would be funded through a rights issue. JK Lakshmi standalone entity would be only providing for its share of subscription to the rights issue. The Rs. 1650 crore cost would be spread over FY2023 (Rs. 700 crore) and balance in FY2024.
- ◆ **Power & fuel cost reduction:** The power & fuel cost reduced q-o-q on per tonne basis on account of 1) full benefit of 10MW WHRS capacity at Sirohi in Q4FY2022 2) A change in fuel mix (usage of alternate fuel at 14% compared to 10% in Q3FY2022)

- ◆ **Rising power & fuel cost impact:** The company expects 7-8% increase in power & fuel cost in Q1FY2023 due to a rise in costs. The power & fuel costs would be higher by 25% or Rs at current procurement costs. 200/tonne.
- ◆ **Lower other expense:** The other expense during Q4FY2022 declined both y-o-y and q-o-q on per tonne basis due to lower fixed costs, lower advertisement spends and non-occurrence of IPL costs during Q4FY2022.
- ◆ **Debt:** The standalone debt stands at Rs. 960 crore and consolidated at Rs. 1850 crore (consolidated net debt at Rs. 650 crore). Consolidated net debt to remain below Rs. 1000 crore post expansion.
- ◆ **Capex:** The JK Lakshmi standalone would be only doing Rs. 70-80 crore maintenance capex per year.
- ◆ **WHRS capacity:** It has reached 33MW WHRS capacity (Sirohi – 25MW, Durg – 8MW). It can further increase it to 35-37MW through de-bottlenecking but it does not have bandwidth for major increase.
- ◆ **Sales volumes:** The sales volume for Q4FY2022 were 31.44 lakh tonnes (29.16 lakh cement, 2.28 lakh clinker). Consolidated sales volume were 32.91 lakh tonnes. For FY2022, standalone sales volume were 105.77 lakh tonnes (96 lakh cement, 9.78 lakh clinker) and consolidated sales volume (adjusted for inter-unit sales) were 112 lakh tonnes (101 lakh cement, 11 lakh clinker).
- ◆ **Production nos:** The cement production numbers for JK lakshmi were 26.19 lakh tonnes and UCW 4.21 lakh tonne.
- ◆ **Fuel mix:** The fuel mix during Q4FY2022 was 30% coal, 56% pet coke and alternate fuels like biomass 14%. The renewable share of power is 40%.
- ◆ **Trade mix:** Trade mix for Q4FY2022 was 56%. Premium product comprise 25% of the trade sales.
- ◆ **Value added products:** The revenue from value added products stood at Rs. 373 crores for FY2022. It plans to increase it by 7-8% in FY2023.
- ◆ **Lead distance:** The lead distance for Q4FY2022 was 395kms.

Results (Standalone)

Particulars	Rs cr				
	Q4FY2022	Q4FY2021	% y-o-y	Q3FY2022	% q-o-q
Net Sales	1497.6	1322.0	13.3%	1193.4	25.5%
Total Expenditure	1221.4	1054.1	15.9%	1047.0	16.7%
Operating profit	276.2	267.9	3.1%	146.4	88.7%
Other Income	17.6	27.3	-35.4%	16.4	7.4%
EBIDTA	293.9	295.2	-0.5%	162.8	80.5%
Interest	21.9	29.9	-27.0%	25.1	-12.8%
PBDT	272.0	265.3	2.5%	137.8	97.4%
Depreciation	50.7	47.8	6.0%	46.8	8.3%
PBT	221.3	217.5	1.8%	91.0	143.2%
Tax	26.2	50.0	-47.6%	31.8	-17.5%
Extraordinary items	-23.4	-30.9	-24.4%	0.0	
Reported Profit After Tax	171.7	136.5	25.8%	59.2	189.9%
Adjusted PAT	195.1	167.4	16.5%	59.2	229.4%
EPS (Rs.)	16.6	14.2	16.5%	5.0	229.4%
Margins (%)			BPS		BPS
OPMs	18.4%	20.3%	(182)	12.3%	618
PAT	13.0%	12.7%	36	5.0%	806
Tax rate	11.8%	23.0%	(1,116)	34.9%	(2,306)

Source: Company, Sharekhan Research

Outlook and Valuation

■ Sector View – Improving demand brightens outlook

The cement industry has seen sustained improvement in demand over the past fifteen years, barring a couple of years, while regional cement prices, have been on a rising trajectory over the trailing five years. The cement industry is expected to witness improvement in demand as the situation normalizes from the second wave of COVID-19 led by infrastructure and rural demand. The strong pick up in residential real estate sector is expected to sustain after the second wave of COVID-19. The sector's long term growth triggers in terms of low per capita consumption and demand pegged at 1.2x GDP remain intact. The government's Rs. 111 lakh crore infrastructure investment plan from FY2020 to FY2025 would lead to a healthy demand environment going ahead.

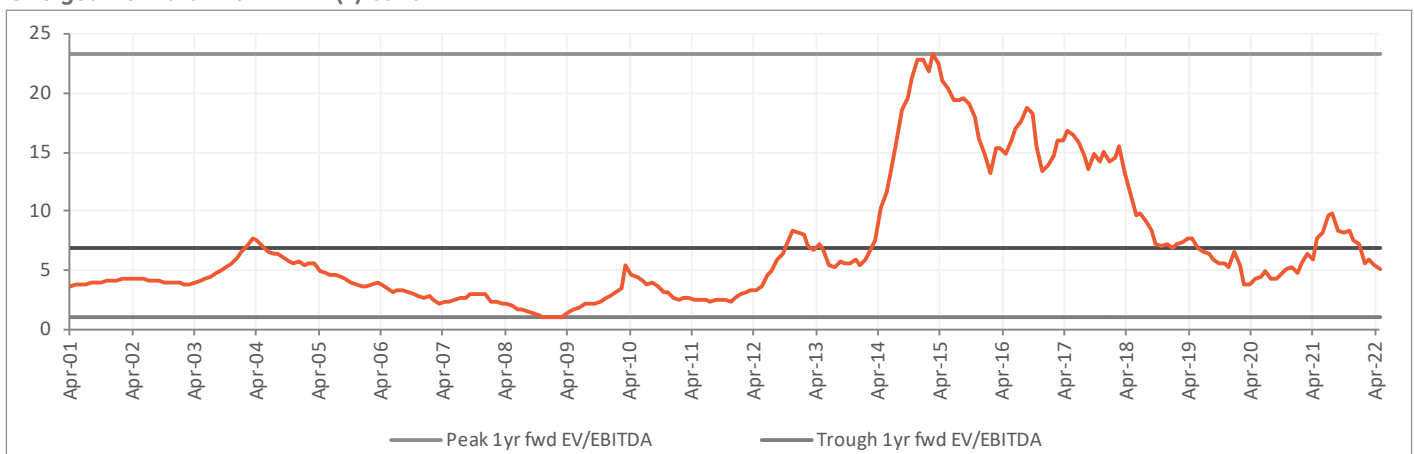
■ Company Outlook – Capacity expansion to provide the next leg of growth from FY2025

JKL is expected to benefit from sustained rural sector demand along with improvement in infrastructure demand. The pricing environment in key regions remains healthy. However, the company is facing capacity constraints with clinker capacity utilization at peak level over trailing peak quarters. Its expansion plans at UCW (1.5MTPA clinker, 2.5MTPA grinding unit) are expected to be completed by March 2024 which would provide the next leg of growth from FY2025. Meanwhile, its standalone debt de-leveraging would continue improving its balance sheet strength. On the other hand, the cement industry is on a strong growth trajectory over the next three years. The company's operational efficiency measures would aid in improving operational profitability going ahead.

■ Valuation – Retain Buy with a revised PT of Rs. 600

JKL is expected to improve upon its operational profitability going ahead through various operational efficiency measures like setting up solar capacities, reducing freight costs, and increasing blending ratios among others. However, volatility in energy costs remains a key near term headwind for the sector and the company. Its upcoming capacity at UCW is expected to provide the next leg of growth from FY2025 onwards. It is currently trading at an undemanding valuation of EV/EBITDA of 4x its FY2024E earnings. Hence, we retain Buy on the stock with a revised price target (PT) of Rs. 600 lowering valuation multiple on account of near term energy-related uncertainties.

One-year forward EV/EBITDA (x) band



Source: Sharekhan Research

Peer Comparison

Company	P/E (x)		EV/EBITDA (x)		P/BV (x)		RoE (%)	
	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E
UltraTech	20.7	18.7	10.6	9.4	2.7	2.4	14.1	13.7
Shree Cement	27.4	23.6	14.0	11.7	4.1	3.5	15.9	16.0
JK Lakshmi Cement	10.4	9.3	4.6	3.8	1.7	1.5	18.0	17.2
Dalmia Bharat	34.9	28.5	9.6	8.4	1.5	1.5	4.5	5.3

Source: Company, Sharekhan estimates

About company

JKL was set up in 1982 in Sirohi, Rajasthan. The company is part of JK Organisation, which operates in India and abroad and is present in the tyre, cement, paper, power transmission and sealing solutions, dairy products and textile industries. The company has a wide network of over 7,000 dealers across Rajasthan, Gujarat, Haryana, Delhi, Uttar Pradesh, Punjab, Jammu and Kashmir, Madhya Pradesh, Chhattisgarh, Odisha, South Bengal, Vidharbha, Mumbai and Pune.

Investment theme

JKL had undertaken capacity expansion plans of 8.6 MT since FY2015, trebling its capacity to 13.3 MT by FY2020. Moreover, JKL has been able to reduce its standalone net debt to equity at 0.4x in FY2021 from 0.7x in FY2020 and a peak of 1.5x in FY2015, which shows efficient capital management. The company has a brownfield expansion potential to reach 20 MT in a short time. Now, it has two distinctive markets, i.e. the East and North West regions.

Key Risks

- ◆ Pressure on cement demand and cement prices in the northwest and eastern regions of India can affect financial performance.
- ◆ Macroeconomic challenges leading to lower government spending on infrastructure and housing sectors can negatively affect the company's performance.

Additional Data

Key management personnel

Bharat Hari Singhania	Chairman
S A Bidkar	Chief Financial Officer
B K Daga	Vice President , Company Secretary & Compliance Officer

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Bengal & Assam Co Ltd	44.28
2	FRANKLIN TEMPLETON MUTUAL	9.49
3	Franklin Resources Inc	9.24
4	BANSAL SACHIN	3.84
5	HDFC Life Insurance Co Ltd	3.17
6	GOVERNMENT PENSION FUND - GLOBAL	2.63
7	Norges Bank	2.63
8	Axis Asset Management Co Ltd/India	2.60
9	India Capital Fund Ltd	2.40
10	ICICI Prudential Asset Management	1.89

Source: Bloomberg

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Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/weak realisation environment resulting in margin pressure and deteriorating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

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