

23 May 2022

JK Lakshmi Cement

Best quarterly performance; retaining a Buy

Rating: **Buy**

Target Price: Rs.661

Share Price: Rs.494

Strong volume growth and operating efficiencies led to JK Lakshmi's reported best quarterly performance. WHRS savings, a solar power plant (to be set up), greater share of alternative fuel, etc., would help contain high costs. With capacity expansion at its subsidiary, standalone volume growth would come from the improving blended mix and higher capacity utilisation. We retain our Buy call, with a TP of Rs661 (Rs727 earlier).

Highest volumes. A transport strike in Durg and heavy rains hurt Q2/Q3 volumes, But JK Lakshmi bounced back to its Q4 highest-quarterly volumes, up 8.26% y/y to 3.14m tons. Demand (East) was 7-8% higher than in Apr'19(pre covid); though North was flat. Demand was partly curbed in May'22 by a strike in Gujarat/longer harvesting season, extreme summers. Prices were hiked in Apr'22 by Rs25-30/bag (North) and Rs15-20 (East). Running at high capacity (standalone), volume growth would be boosted by the improving blended mix, targeted to rise 4-5% p.a. (now ~55%). We expect 4%/8% volume/ revenue CAGRs over FY22-24.

Enhanced operating performance. The good operating performance in a high-cost context came from savings at the 10MW Sirohi WHRS and lower ad expenses. EBITDA rose 3% y/y to Rs2.8bn, its highest, though EBITDA/ton declined 4.8% y/y to Rs879. A Rs5/bag price hike is required to pass on costs. Even with all operating benefits priced in, costs are expected to be 7-8% higher than in Q4 FY22. We expect EBITDA to clock a 3% CAGR over FY22-24.

Expanding subsidiary capacity. The 2.5m-tonne cement- and 1.5m-tonne clinker-capacity expansions would be complete by Mar'24. (As commodity costs are high, all capacity expansions would be at Udaipur vs the earlier guidance of setting up a 1.5m-tonne split GU. The Rs16.5bn capex would come from debt and equity (2:1). Despite Rs11bn debt, consolidated net debt is guided at below Rs10bn.

Valuation. We retain our Buy rating, with a TP of Rs661, on 9x FY24e EV/EBITDA. **Risks:** Demand slowdown; rise in fuel prices.

Key financials (YE Mar)	FY20	FY21	FY22	FY23e	FY24e
Sales (Rs m)	40,435	43,847	50,408	54,590	59,206
Net profit (Rs m)	2,655	3,947	4,496	3,305	4,502
EPS (Rs)	22.6	33.5	38.2	28.1	38.2
P/E (x)	8.7	12.9	12.9	17.6	12.9
EV / EBITDA (x)	5.2	7.1	7.5	8.3	6.5
EV / ton (\$)	39.1	62.1	69.1	67.6	62.9
RoE (%)	14.5	19.2	18.8	12.7	15.3
RoCE (%)	10.2	12.9	13.2	9.3	11.7
Dividend yield (%)	1.3	0.9	1.0	0.8	0.8
Net gearing (x)	0.7	0.3	0.1	0.0	-0.1

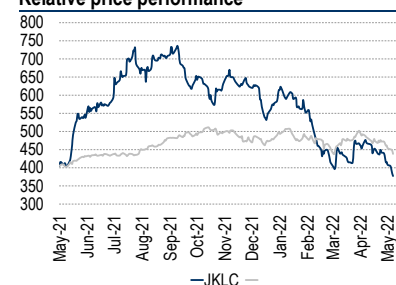
Source: Company, Anand Rathi Research

Key data	JKLC IN / JKLC BO
52-week high / low	Rs.816 / 366
Sensex / Nifty	54326 / 16266
3-m average volume	\$2.3m
Market cap	Rs.58bn / \$749.2m
Shares outstanding	118m

Shareholding pattern (%)	Mar'22	Dec'21	Sept'21
Promoters	46.3	46.0	46.0
- of which, Pledged	-	-	-
Free float	53.7	54.0	54.0
- Foreign institutions	12.3	13.0	12.5
- Domestic institutions	25.9	25.0	25.3
- Public	15.5	16.1	16.2

Estimates revision (%)	FY23e	FY24e
Sales	4.0	7.3
EBITDA	-15.1	-5.8
PAT	-24.4	-10.7

Relative price performance



Source: Bloomberg

Manish Valecha
Research Analyst

Vibha Jain
Research Associate

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Quick Glance – Financials and Valuations

Fig 1 – Income statement (Rs m)

Year-end: Mar	FY20	FY21	FY22	FY23e	FY24e
Sales volume (m tons)	9.2	9.9	10.6	11.0	11.5
Net revenues	40,435	43,847	50,408	54,590	59,206
Growth (%)	4.2	8.4	15.0	8.3	8.5
Direct costs	25,128	27,468	33,468	37,575	39,632
SG&A	8,584	8,481	8,928	9,940	11,089
EBITDA	6,724	7,898	8,013	7,075	8,485
EBITDA margins (%)	16.6	18.0	15.9	13.0	14.3
- Depreciation	1,884	1,942	1,905	2,127	2,192
Other income	501	745	673	710	829
Interest expenses	1,644	1,425	963	868	598
PBT	3,697	5,275	5,817	4,790	6,524
Effective tax rate (%)	31	27	24	31	31
+ Associates / (Minorities)					
Net income	2,352	3,638	4,262	3,305	4,502
Adjusted income	2,655	3,947	4,496	3,305	4,502
WANS	118	118	118	118	118
FDEPS (Rs / sh)	22.6	33.5	38.2	28.1	38.2
FDEPS growth (%)	233.7	48.7	13.9	-26.5	36.2

Fig 3 – Cash-flow statement (Rs m)

Year-end: Mar	FY20	FY21	FY22	FY23e	FY24e
PBT (adj. OI and interest)	4,840	5,956	6,108	4,948	6,294
+ Non-cash items	1,884	1,942	1,905	2,127	2,192
Oper. prof. before WC	6,724	7,898	8,013	7,075	8,485
- Incr. / (decr.) in WC	1,132	-1,499	1,279	-1,669	1,233
Others incl. taxes	612	904	1,733	1,485	2,022
Operating cash-flow	4,980	8,493	5,000	7,259	5,230
- Capex (tang. + intang.)	939	1,281	1,373	800	800
Free cash-flow	4,041	7,212	3,628	6,459	4,430
Acquisitions					
- Div. (incl. buyback & taxes)	355	441	589	441	441
+ Equity raised	-	-	-	-	-
+ Debt raised	-1,358	-3,319	-1,618	-3,000	-3,000
- Fin investments	645	-337	1,874	4,500	-
- Misc. (CFI + CFF)	1,549	511	-250	159	-230
Net cash-flow	134	3,277	-203	-1,641	1,219

Source: Company, Anand Rath Research

Fig 2 – Balance sheet (Rs m)

Year-end: Mar	FY20	FY21	FY22	FY23e	FY24e
Share capital	589	589	589	589	589
Net worth	17,127	20,789	24,524	27,387	31,447
Debt	16,087	12,768	11,150	8,150	5,150
Minority interest					
DTL / (Assets)	205	641	943	943	943
Capital employed	33,419	34,198	36,616	36,480	37,540
Net tangible assets	27,994	26,590	27,192	26,737	25,345
Net intangible assets	38	25	44	44	44
Goodwill	-	-	-	-	-
CWIP (tang. & intang.)	1,519	2,275	1,121	250	250
Investments (strategic)	3,673	3,838	3,904	8,404	8,404
Investments (financial)	4,174	3,673	5,480	5,480	5,480
Curr. assets (ex cash)	7,786	6,622	7,260	9,031	11,024
Cash	314	3,591	3,388	1,747	2,966
Current liabilities	12,080	12,416	11,774	15,214	15,974
Working capital	-4,294	-5,794	-4,514	-6,183	-4,950
Capital deployed	33,419	34,198	36,616	36,480	37,540
Contingent liabilities	-	-	-	-	-

Fig 4 – Ratio analysis

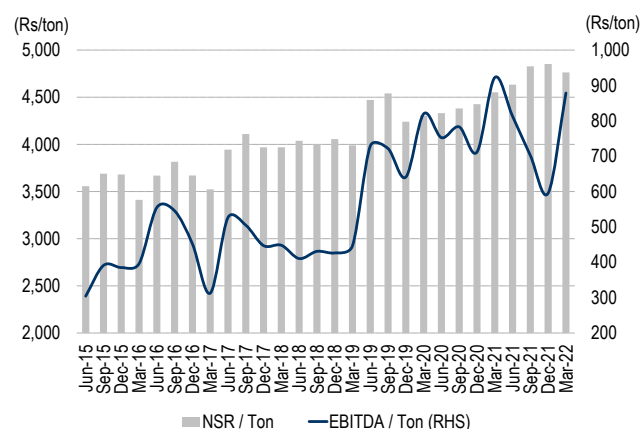
Year-end: Mar	FY20	FY21	FY22	FY23e	FY24e
P/E (x)	8.7	12.9	12.9	17.6	12.9
EV / EBITDA (x)	5.2	7.1	7.5	8.3	6.5
EV / Sales (x)	0.9	1.3	1.2	1.1	0.9
P/B (x)	1.3	2.4	2.4	2.1	1.8
RoE (%)	14.5	19.2	18.8	12.7	15.3
RoCE (%) - after tax	10.2	12.9	13.2	9.3	11.7
DPS (Rs / sh)	2.5	3.8	5.0	3.8	3.8
Dividend payout (%) - incl. DDT	15.1	12.1	13.8	13.4	9.8
Net debt / equity (x)	0.7	0.3	0.1	0.0	-0.1
Working capital (days)	-38.8	-48.2	-32.7	-44.5	-34.0
EV / ton (\$)	39.1	62.1	69.1	67.6	62.9
NSR / ton (Rs)	4,383	4,434	4,766	4,966	5,166
EBITDA / ton (Rs)	729	799	758	644	740
Volumes	9.23	9.89	10.58	10.99	11.46
CFO : PAT %	187.6	215.1	111.2	219.7	116.2

Source: Company, Anand Rath Research

Fig 5 – Price movement



Fig 6 – Quarterly per-ton NSR and EBITDA trends

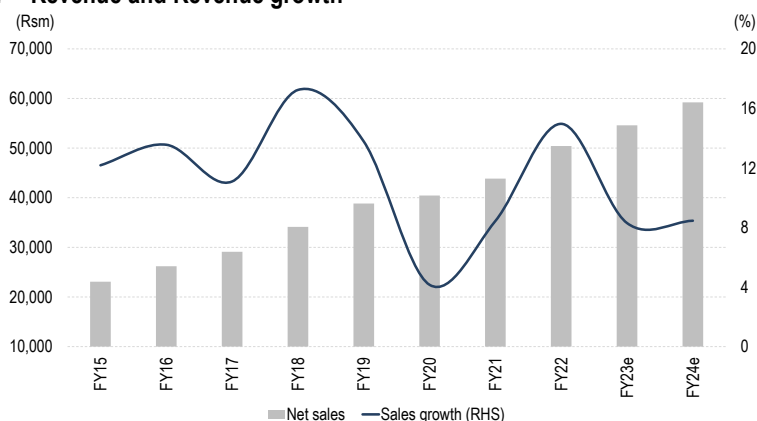


Other key highlights

Revenue growth

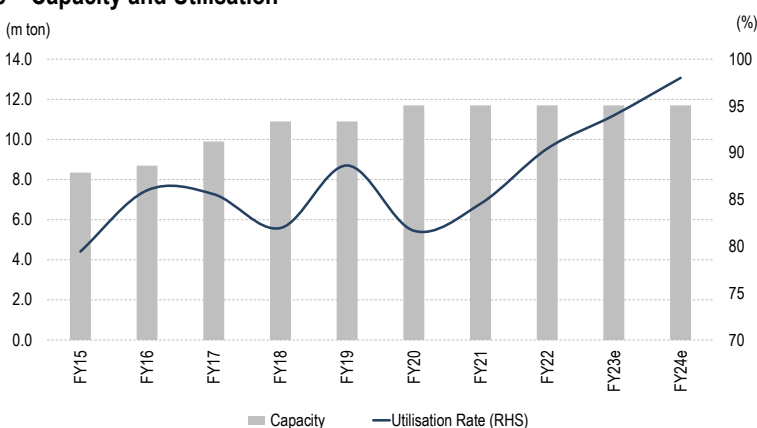
JK Lakshmi's Q4 revenue grew 13.3% y/y to Rs15bn on a 4.6% y/y rise in realisations and 8.3% y/y in volumes to 3.14m tons. Sales of value-added products (RMC/POP/AAC blocks/putty, etc.) were Rs1.03bn (Rs1bn the previous quarter). Sales volumes of premium cement were ~25% of trade volumes, whereas the proportion of trade volumes rose to 56%. A strike in Gujarat/the longer harvesting season and extreme summers curbed demand for part of May'22. Prices were hiked by Rs25-30/bag in the North in Apr'22 and Rs15-20 in the East. A further hike of Rs15/bag is required to pass on the high costs.

Fig 7 – Revenue and Revenue growth



Source: Company, Anand Rathi Research

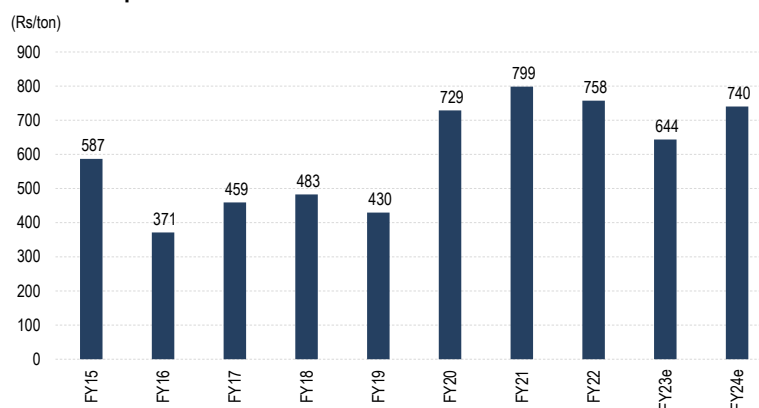
Fig 8 – Capacity and Utilisation



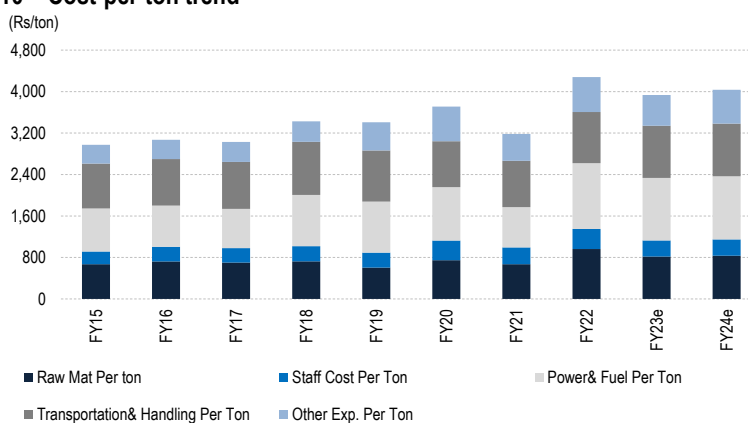
Source: Company, Anand Rathi Research

Operating performance

Absolute EBITDA grew 3% y/y to Rs2.8bn. EBITDA/ton declined 4.8% y/y to Rs879. Freight cost/ton rose 8.9% y/y due to higher diesel prices; raw material costs declined 10.8% y/y and power & fuel cost grew 24% y/y on high coal/pet-coke prices. The company expects higher coal prices to slash profitability next quarter. Other expenses declined 21.4% y/y on an absolute basis due to lower advertising expense and the BCG consultancy services ending. Adj. profit grew 16.5% y/y to Rs2bn on higher operating profit and 27% y/y lower interest expense.

Fig 9 – EBITDA-per-ton trend

Source: Company, Anand Rathi Research

Fig 10 – Cost-per-ton trend

Source: Company, Anand Rathi Research

Result Highlights

Fig 11 – Quarterly trend

(Rs m)	Q2 FY20	Q3 FY20	Q4 FY20	Q1 FY21	Q2 FY21	Q3 FY21	Q4 FY21	Q1 FY22	Q2 FY22	Q3 FY22	Q4 FY22	% Y/Y	% Q/Q
Sales	9355	10050	10612	8252	10448	11928	13220	12315	11182	11934	14976	13.3	25.5
EBITDA	1487	1519	2020	1433	1867	1918	2679	2161	1626	1464	2762	3.1	88.7
EBITDA margins (%)	15.9	15.1	19.0	17.4	17.9	16.1	20.3	17.5	14.5	12.3	18.4	-182bps	618bps
EBITDA per ton (Rs)	722	641	820	752	783	712	922	813	702	595	879	(4.8)	47.6
Interest	390	428	425	378	381	367	299	257	237	251	219	(27.0)	(12.8)
Depreciation	437	485	510	484	493	487	478	460	470	468	507	6.0	8.3
Other income	68	147	225	82	183	207	273	169	163	164	176	(35.4)	7.4
PBT	727	754	1,311	653	1,176	1,272	1,865	1,613	1,081	910	1,979	6.1	117.5
Exceptional item	-	-	-	-	-	-	309	-	-	-	234	(24.4)	NA
Tax	268	262	303	209	370	248	500	426	316	318	262	(47.6)	(17.5)
Reported PAT	459	492	1,007	444	806	1,023	1,365	1,187	765	592	1,717	25.8	189.9
Adj. PAT	459	492	1,007	444	806	1,023	1,674	1,187	765	592	1,951	16.5	229.4

Source: Company, Anand Rathi Research

Fig 12 – Per-ton analysis

(Rs)	Q2 FY20	Q3 FY20	Q4 FY20	Q1 FY21	Q2 FY21	Q3 FY21	Q4 FY21	Q1 FY22	Q2 FY22	Q3 FY22	Q4 FY22	% Y/Y	% Q/Q
Realisations	4,541	4,240	4,305	4,331	4,381	4,426	4,552	4,633	4,828	4,853	4,763	4.6	(1.8)
EBITDA	722	641	820	752	783	712	922	813	702	595	879	(4.8)	47.6
Sales volumes (m tons)	2.1	2.4	2.5	1.9	2.4	2.7	2.9	2.7	2.3	2.5	3.1	8.3	27.9
Costs													
Raw material	824	622	633	485	698	725	749	832	767	807	668	(10.8)	(17.2)
Purchase of traded goods	366	364	330	278	375	410	354	378	466	490	474	34.1	(3.3)
Power & Fuel	1,014	891	813	690	863	799	782	908	975	1,192	971	24.2	(18.5)
Staff	360	332	308	424	335	323	273	312	365	353	229	(15.9)	(35.0)
Freight	895	870	868	870	852	901	935	934	975	1,011	1,018	8.9	0.7
Other expenditure	478	556	538	473	498	571	545	574	610	601	396	(27.4)	(34.2)

Source: Company, Anand Rathi Research

Concall Highlights

- **Volumes.** JK Lakshmi's Q4 sales of cement grew 8.3% y/y to 3.14m tonnes. Cement and clinker produced was 2.619 and 1.74m tonnes. Q4 FY22 consolidated sales were 3.29m tonnes. While the blended share was 55%, it is guided to increase 5% every year aiding volume growth through rising capacity utilisation.
- **Demand and pricing.** Demand (East) was 7-8% higher than in Apr'19; in the North, it was flat. The strike in Gujarat, a longer harvesting season and high temperatures (Haryana/UP) curtailed demand in May'22. Prices were hiked by Rs25-30/bag in the North and Rs15-20 in the East in Apr'22. A further hike of Rs15/bag is required to pass on costs.
- **Cost.** Average consumption cost of power & fuel in Q4 FY22 was Rs9,000/ton (Rs9,400 the quarter prior) aided by savings on the 10MW WHRS commencing and the greater proportion of alternative fuel (14%, vs 10% earlier). ON the exhaustion of low-cost fuel stocks, the full impact would come in Q1 FY23 when costs are expected to be 7-8% higher than in Q4 FY22.
- **Value-added products.** Sales of value-added products (RMC/POP/AAC blocks/putty) were Rs.1.03bn (RMC ~Rs480m). The company aims at Rs5bn revenue from value-added products in coming years.
- **UCW expansion.** Cement capacity will rise by 2.5m tonnes (1.5m-tonnes clinker capacity) incl. a railway siding by Mar'24 in Udaipur. On completion, UCW's capacity will rise to 3m tonnes clinker, 4.7m cement.
Capex would be Rs16.5bn, funded by debt (70% ~ Rs11bn) and equity (30% ~Rs5.5bn). The equity part will be covered by internal accruals (Rs1bn-1.5bn) and parental infusions (Rs4bn-4.5bn). For the debt, JK Lakshmi will provide a corporate guarantee. Financial closure for phase-I is done. Orders for major equipment have been placed. The company will spend Rs7bn in FY23 and Rs9bn in FY24.
- **Debt.** On 31st Mar'22, standalone gross debt was Rs9.6bn (Rs10.78bn at 31st Dec'21) and consolidated debt was Rs18.5bn. The consolidated net debt was guided to remain under Rs10bn (Rs6.5bn at 31st Mar'22).
- **Capex.** The company will spend Rs7bn in FY23 and Rs9bn in FY24 for expansion at UCW. Maintenance capex will be Rs700m-800m.
- **WHRS expansion.** The Rs1.75bn 10MW waste-heat recovery unit-III at Sirohi was commissioned, taking WHRS capacity to 33MW (Sirohi ~25MW, Durg ~8MW). From this, power-cost saving will be Rs220m-230m a year. And, solar capacities are being set up at various plants
- **Operational data**
 - Decline in ad expenses (IPL)/BCG consultancy service ending led to "other" expenses declining.
 - The company consumed MAT credit of Rs440m in FY22. The MAT credit balance on 31st Mar'22 was Rs2.6bn.
 - Fuel mix: pet-coke 56%, coal 30%, alternative fuel (bio-mass) 14%. The lead distance was ~395km (400km the prior quarter). The share of renewable power is 40% of overall fuel.
 - The trade and non-trade mix was ~56:44. Premium cement sales volumes were ~25% of trade volumes.

Valuations

Backed by strong volume growth and operating efficiencies, the company reported its best quarterly performance. Savings from the WHRS, the setting up of a solar power plant, the greater proportion of alternative fuel, etc. would help contain costs. The 2.5m-tonne cement- and 1.5m-tonne clinker-capacity expansions are expected to be complete by Mar'24. Despite Rs11bn of the capex funded through debt, consolidated net debt is guided to be below Rs10bn. With capacity expansion at the subsidiary, JK Lakshmi (standalone) volume growth would come from the better blended mix and greater capacity utilisation.

At the CMP, the stock quotes at 6.7x FY24e EV/EBITDA. We retain our Buy rating on it, with a lower target price of Rs661, on 9x FY24e EV/EBITDA, reflecting an EV/ton of \$85.

Change in estimates

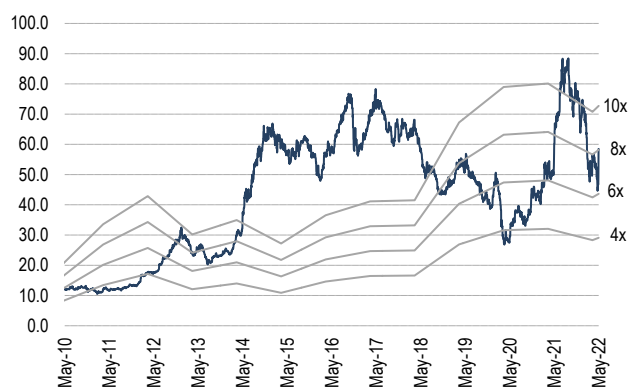
We change our FY23e/FY24e revenue 4%/7.3%, EBITDA -15%/-5.8% and PAT -24.4%/-10.7%.

Fig 13 – Change in estimates

(Rs m)	Old		New		% Variance	
	FY23e	FY24e	FY23e	FY24e	FY23	FY24
Sales	54,590	59,206	52,481	55,177	4.0	7.3
EBITDA	7,075	8,485	8,333	9,004	-15.1	-5.8
PAT	3,305	4,502	4,369	5,040	-24.4	-10.7

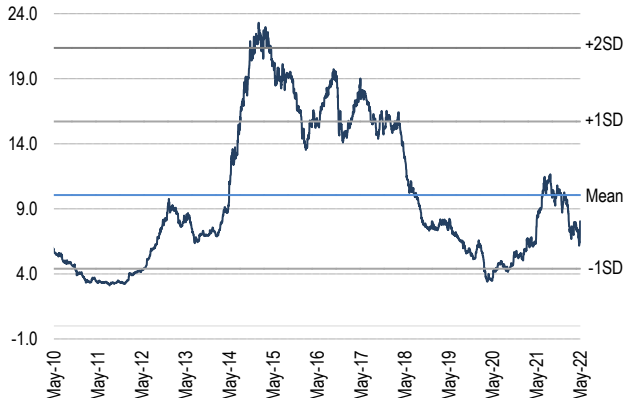
Source: Anand Rath Research

Fig 14 – EV/EBITDA band, one-year-forward



Source: Bloomberg, Anand Rath Research

Fig 15 – EV/EBITDA: Standard deviation, one-year-forward



Source: Bloomberg, Anand Rath Research

Fig 16 – Peer comparison – valuations

	CMP (Rs)	P/E(x)		EV / EBITDA (x)		EV / ton (\$)	
		FY23e	FY24e	FY23e	FY24e	FY23e	FY24e
JK Lakshmi	494	17.6	12.9	8.6	6.7	68	63
JK Cement	2,436	20.5	16.8	12.0	10.0	168	160
Birla Corp.	1,031	14.2	9.9	7.8	5.9	67	58
Ramco Cement	694	19.9	16.5	12.2	10.5	124	117
Dalmia Bharat	1,401	26.9	19.7	9.1	7.2	82	57
Deccan Cement	518	6.1	5.3	4.6	4.5	52	32
Heidelberg Cement	187	13.1	11.0	7.8	6.1	76	70
India Cement	178	23.5	14.9	10.3	8.0	67	65
Mangalam Cement	317	3.4	3.2	2.8	2.0	34	25
Orient Cement	124	8.7	8.6	5.1	5.4	49	56
Prism Johnson	112	17.9	14.3	8.5	7.0	72	59
Sagar Cement	219	19.6	12.4	8.6	5.9	56	51
NCL Industries	172	6.3	5.3	3.8	3.0	36	31
Sanghi Industries	44	12.0	7.9	7.0	5.5	51	47
Star Cement	90	14.0	12.9	8.8	8.5	87	70

Source: Company, Anand Rathi ResearchSource: Company, Bloomberg, Anand Rathi Research

Risk

- Demand slowdown.
- Rising prices of pet-coke and diesel.

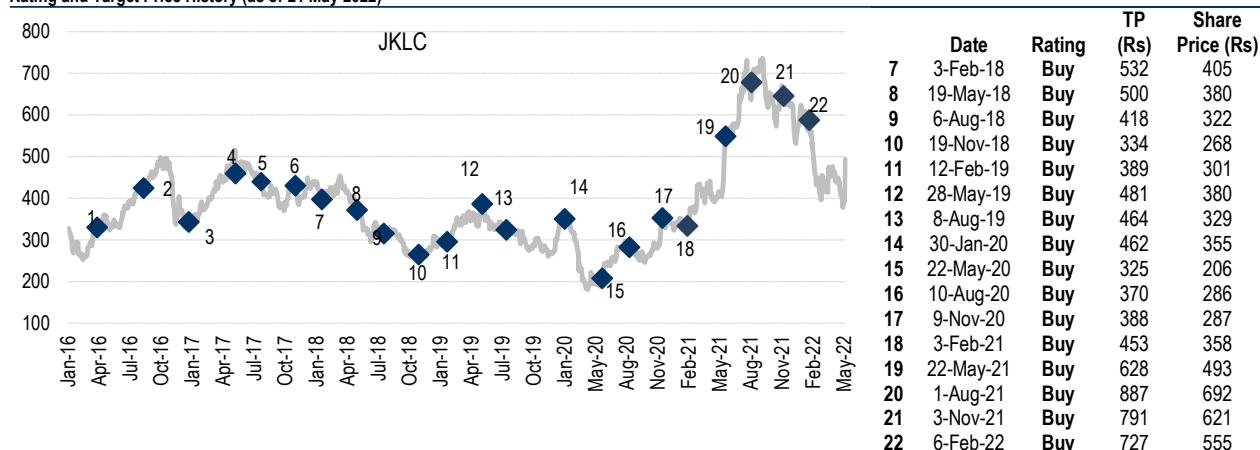
Appendix

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	Buy	Hold	Sell
Large Caps (>US\$1bn)	>15%	5-15%	<5%
Mid/Small Caps (<US\$1bn)	>25%	5-25%	<5%

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