

Retail Equity Research

JK Lakshmi Cements Ltd

Cement

BSE CODE: 500380

NSE CODE: JKLAKSHMI

Bloomberg CODE: JKLC:IN

SENSEX: 54,053

Buy

12Month Investment period

Rating as per Small Cap

CMP Rs. 457

TARGET Rs. 552

RETURN 21% ↑

(Closing: 24-05-22)

KEY CHANGES:

TARGET ↑

RATING ↔

EARNINGS ↑

Strong performance, cost pressure in the near-term

JK Lakshmi Cement (JKLC) is part of JK group mainly focused in North, West and Eastern regions of India with a consolidated capacity of 14MT.

- We revise our Target to Rs.552 (from Rs.470) upgrade to Buy rating considering the capacity expansion and attractive valuation.
- Q4FY22 revenue grew by 13%YoY aided by the volume growth of ~7%YoY and realisation growth of 6%YoY.
- EBITDA margin declined to 18.4% from 20.3%YoY (12.3% QoQ) due to the surge in costs partially offset by higher realisation.
- JKLC's subsidiary (UCWL) is expanding its capacity by 2.5MT with a capex of Rs.16.5bn (D/E of 70:30), expected to be commissioned by FY24.
- Pressure on margins due to the sharp surge in fuel costs will be reduced by price hikes and cost reduction initiatives like Waste Heat Recovery.
- JKLC currently trades at 7x 1Yr Fwd EV/EBITDA. We value at 6x FY24E EV/EBITDA (3Yr Avg=7x) considering the current input price inflation.

Healthy volumes and realisation supported revenue growth

JKLC reported a revenue growth of 13%YoY in Q3FY22 supported by ~7% growth in volumes and 6%YoY growth in realisation. The value added products including RMC revenue was at Rs.103cr (Vs. Rs.100cr QoQ) and JKLC is targeting ~Rs.500cr in the coming years. The current capacity utilization is at 90% which limits future volume growth. But the company expands capacity at its subsidiary company (UCWL) by FY24. GoI's strong focus on infra & housing will support the demand on going forward. We expect the revenue to grow by 7% CAGR over FY21-24E, partially supported by higher realisation to compensate for higher costs.

Price hike and cost reduction measures aids margin recovery

EBITDA margin declined to 18.4% from 20.3%YoY but recovered sharply from 12.3% QoQ. Total expenses/Ton increased by ~9%YoY while realisation/Ton improved by 6%YoY. On a sequential basis, Total expenses/Ton declined by ~9% due to reduction in the staff cost, Power & Fuel and other expenses. Average blended cost of fuel was at Rs.9,000/Ton in Q4FY22 Vs. Rs.9,400 in Q3FY22, but the current price is at Rs.13,400, which may exert some pressure in margins in the short-term. However, recent commissioning of 10MW WHR, higher usage of alternate fuel (14% Vs 10% QoQ), will aid the fuel cost reduction. The company is taking price hikes to mitigate margin pressure and hiked Rs.25-30/bag in April. EBITDA/Ton declined to Rs.880 Vs. 913 YoY but improved from Rs.595 QoQ. Adverse movements in cement, fuel and RM prices are the key risks.

Capacity expansion to take care of growth

JKLC's subsidiary, UCWL's capacity expansion of 2.5MT with a capex of Rs.16.5bn is planned to be commissioned by the end of FY24. The funding for the expansion will be through Debt-Equity (70%:30%). The subsidiary will spend ~Rs.7bn in FY23 and ~Rs.9bn in FY24. JKLC's current gross debt stands at Rs.18.5bn & Net debt at Rs.6.5bn and expects the net debt will remain under Rs.10bn after the expansion.

Valuation & Outlook

Demand outlook is positive given GoI's strong focus on infra & Housing. The expansion of 2.5MT will support the future growth. The stock currently trades at 7x 1Yr Fwd EV/EBITDA. Considering the current input price inflation, we value at 6x FY24E EV/EBITDA (3Yr Avg=7.4x) to arrive at a revised Target of Rs.552 (earlier Rs.470). Upgrade to Buy rating considering the capacity expansion and attractive valuation.

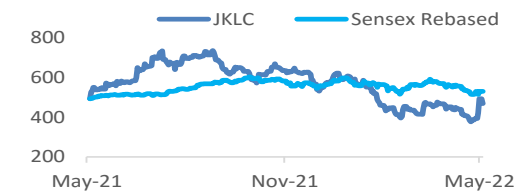
Company Data

Market Cap (Rs.cr)	5,378
Enterprise Value (Rs.cr)	5,726
Outstanding Shares (cr)	11.8
Free Float	54%
Dividend Yield	0.7%
52 week high (Rs.)	815
52 week low (Rs.)	369
6m average volume (cr)	0.04
Beta	1.1
Face value (Rs.)	5

Shareholding %	Q2FY22	Q3FY22	Q4FY22
Promoters	46.0	46.0	46.0
FII's	12.5	13.0	12.3
MFs/Insti	26.2	25.0	25.9
Public	12.7	11.8	11.9
Others	2.6	4.2	3.6
Total	100	100	100
Promotor pledge	NIL	NIL	NIL

Price Performance	3 Month	6 Month	1Year
Absolute Return	8.7%	-25.6%	-4.9%
Absolute Sensex	-5.3%	-6.9%	7.4%
Relative Return*	14.0%	-18.7%	-12.3%

*over or under performance to benchmark index



Standalone (cr)	FY22A	FY23E	FY24E
Sales	5,041	5,557	5,776
Growth (%)	15.0	10.2	4.0
EBITDA	801	744	907
EBITDA Margin (%)	15.9	13.4	15.7
Adj. PAT	450	376	490
Growth (%)	13.7	-16.4	30.4
Adj. EPS	38.2	32.0	41.7
Growth (%)	13.7	-16.4	30.4
P/E	12.0	14.3	11.0
P/B	2.2	1.9	1.6
EV/EBITDA	6.6	6.2	4.4
ROE (%)	19.6	14.1	15.9
D/E	0.5	0.4	0.3

Vincent Andrews
Research Analyst

Quarterly Financials (Standalone)

Profit & Loss

Rs cr)	Q4FY22	Q4FY21	YoY Growth(%)	Q3FY22	QoQ Growth (%)	FY22	FY21	YoY Growth(%)
Sales	1,498	1,322	13.3%	1,193	25.5%	5,041	4,385	15.0%
EBITDA	276	268	2.9%	146	88.7%	801	790	1.4%
EBITDA margins %	18.4%	20.3%	(190bps)	12.3%	620bps	15.9%	18.0%	(220bps)
Depreciation	51	48	6.0%	47	8.3%	191	194	-1.9%
EBIT	226	221	2.2%	100	126.4%	611	596	2.4%
Interest	22	30	-27.0%	25	-12.8%	96	143	-32.4%
Other Income	18	27	-35.4%	16	7.4%	67	74	-9.7%
Exceptional Items	-23	-31	0.0%	0	0.0%	-23	-31	0.0%
PBT	198	187	5.8%	91	117.5%	558	497	12.3%
Tax	26	50	-47.6%	32	-17.5%	132	133	-0.5%
Share of profit from associates	0	0	0.0%	0	0.0%	0	0	0.0%
Minority interest	0	0	0.0%	0	0.0%	0	0	0.0%
Reported PAT	172	137	25.2%	59	189.9%	426	364	17.0%
Adjustments	0	0	0.0%	0	0.0%	0	0	0.0%
Adj PAT	172	137	25.2%	59	189.9%	426	364	17.0%
No. of Shares	12	12	0.0%	12	0.0%	12	12	0.0%
Adj EPS (Rs)	14.6	11.7	25.2%	5.0	189.9%	36.2	31.0	17.0%

Per Tonne Analysis

	Q4FY22	Q4FY21	YoY Growth(%)	Q3FY22	QoQ Growth (%)
Cement Volume (MT)	3.14	2.94	6.8%	2.46	27.7%
Cost of materials consumed	1,272	1,080	17.8%	1,100	15.6%
Employee Expenses	230	269	-14.7%	353	-34.9%
Power & Fuel	972	772	25.9%	1,192	-18.4%
Freight & forwarding	1,019	923	10.4%	1,011	0.8%
Other expenses	396	539	-26.4%	601	-34.1%
Total expenses	3,890	3,583	8.6%	4,258	-8.6%
Realisation (inc. RMC)	4,770	4,497	6.1%	4,853	-1.7%
EBITDA	880	913	-3.7%	595	47.8%

Change in Estimates

Year / Rs cr	Old estimates		New estimates		Change %	
	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E
Revenue	5,248	5,565	5,557	5,776	5.9%	3.8%
EBITDA	687	864	744	907	8.4%	5.0%
Margins (%)	13.1%	15.5%	13.4%	15.7%	30bps	20bps
Adj. PAT *	324	466	376	490	16.1%	5.2%
EPS	27.6	39.6	32.0	41.7	15.8%	5.2%



PROFIT & LOSS

Y.E March (Rs. cr)	FY20A	FY21A	FY22A	FY23E	FY24E
Revenue	4,044	4,385	5,041	5,557	5,776
% change	4.2	8.4	15.0	10.2	4.0
EBITDA	672	790	801	744	907
% change	62.0	17.5	1.4	-7.1	21.9
Depreciation	188	194	191	205	208
EBIT	484	596	611	540	700
Interest	164	143	96	131	109
Other Income	49	74	67	105	78
PBT	339	497	582	513	669
% change	225.1	46.5	17.0	-11.8	30.4
Tax	104	133	132	137	179
Tax Rate (%)	30.7%	26.7%	26.7%	26.7%	26.7%
Reported PAT	235	364	450	376	490
Adj*	-30	-31	0	0	0
Adj PAT	265	395	450	376	490
% change	233.7	48.9	13.7	-16.4	30.4
No. of shares (cr)	11.8	11.8	11.8	11.8	11.8
Adj EPS (Rs.)	22.6	33.6	38.2	32.0	41.7
% change	233.7	48.9	13.7	-16.4	30.4
DPS (Rs.)	2.4	2.4	2.4	2.4	2.4
CEPS (Rs.)	38.6	50.1	54.4	49.3	59.3

CASH FLOW

Y.E March (Rs. cr)	FY20A	FY21A	FY22E	FY23E	FY24E
Net inc. + Depn.	454	590	640	581	698
Non-cash adj.	-49	-36	0	0	0
Other adjustments	232	222	96	131	109
Changes in W.C	-36	174	-21	65	9
C.F. Operation	541	863	715	777	816
Capital exp.	-87	-121	-153	2	-80
Change in inv.	-52	-216	-186	-350	-100
Other invest.CF	-34	10	0	0	0
C.F - Investment	-172	-328	-339	-348	-180
Issue of equity	0	0	0	0	0
Issue/repay debt	-321	-490	-246	-321	-299
Dividends paid	-45	0	-28	-28	-28
Other finance.CF	-3	-1	0	0	0
C.F - Finance	-369	-491	-275	-350	-328
Chg. in cash	0	44	102	79	309
Closing cash	2	46	148	227	536

BALANCE SHEET

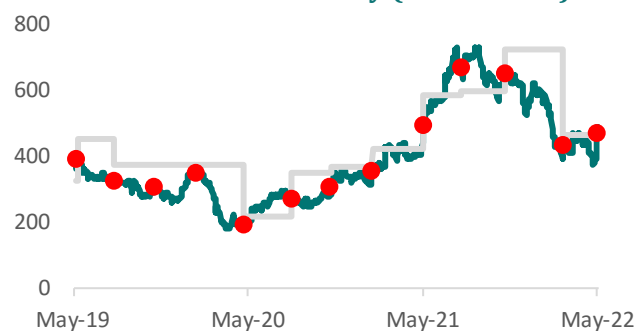
Y.E March (Rs. cr)	FY20A	FY21A	FY22E	FY23E	FY24E
Cash	31	359	461	541	849
Accounts Receivable	88	54	90	122	127
Inventories	413	316	492	459	471
Other Cur. Assets	278	310	345	381	396
Investments	784	751	937	1,287	1,387
Gross Fixed Assets	5,186	5,222	5,490	5,570	5,650
Net Fixed Assets	2,799	2,642	2,719	2,595	2,467
CWIP	152	228	112	30	30
Intangible Assets	4	3	3	3	3
Def. Tax (Net)	-20	-64	-64	-64	-64
Other Assets	0	0	0	0	0
Total Assets	4,529	4,597	5,095	5,352	5,665
Current Liabilities	1,436	1,189	1,408	1,504	1,544
Provisions	17	20	28	30	32
Debt Funds	1,183	1,125	965	765	565
Other Liabilities	181	185	195	205	215
Equity Capital	59	59	59	59	59
Reserves & Surplus	1,654	2,020	2,441	2,789	3,251
Shareholder's Fund	1,713	2,079	2,500	2,848	3,310
Total Liabilities	4,529	4,597	5,095	5,352	5,665
BVPS (Rs.)	146	177	212	242	281

RATIOS

Y.E March	FY20A	FY21A	FY22E	FY23E	FY24E
Profitab. & Return					
EBITDA margin (%)	16.6	18.0	15.9	13.4	15.7
EBIT margin (%)	12.0	13.6	12.1	9.7	12.1
Net profit mgn.(%)	6.6	9.0	8.9	6.8	8.5
ROE (%)	16.4	20.9	19.6	14.1	15.9
ROCE (%)	15.0	17.6	16.4	14.3	16.0
W.C & Liquidity					
Receivables (days)	8.8	5.9	5.2	6.9	7.8
Inventory (days)	138.8	122.7	119.0	129.5	123.4
Payables (days)	434.7	394.4	382.8	396.9	404.7
Current ratio (x)	0.6	0.9	1.0	1.0	1.2
Quick ratio (x)	0.1	0.3	0.4	0.4	0.6
Turnover & Leverage					
Gross asset T.O (x)	0.8	0.8	0.9	1.0	1.0
Total asset T.O (x)	0.9	1.0	1.0	1.1	1.0
Int. coverage ratio (x)	3.0	4.2	6.3	4.1	6.4
Adj. debt/equity (x)	0.9	0.7	0.5	0.4	0.3
Valuation					
EV/Sales (x)	1.5	1.3	1.0	0.8	0.7
EV/EBITDA (x)	9.0	7.2	6.6	6.2	4.4
P/E (x)	20.3	13.6	12.0	14.3	11.0
P/BV (x)	3.1	2.6	2.2	1.9	1.6



Recommendation Summary (Last 3 Years)



Source: Bloomberg, Geojit Research

Dates	Rating	Target
21-Aug-20	Buy	355
12-Nov-20	Buy	370
04-Feb-21	Buy	428
24-May-21	Accumulate	590
10-Aug-21	Reduce	600
09-Nov-21	Accumulate	730
10-Mar-22	Accumulate	470
25-May-22	Buy	552

Investment Rating Criteria

Ratings	Large caps	Midcaps	Small Caps
Buy	Upside is above 10%	Upside is above 15%	Upside is above 20%
Accumulate	-	Upside is between 10%-15%	Upside is between 10%-20%
Hold	Upside is between 0% - 10%	Upside is between 0%-10%	Upside is between 0%-10%
Reduce/sell	Downside is more than 0%	Downside is more than 0%	Downside is more than 0%
Not rated/Neutral			

Definition:

Buy: Acquire at Current Market Price (CMP), with the target mentioned in the research note.

Accumulate: Partial buying or to accumulate as CMP dips in the future.

Hold: Hold the stock with the expected target mentioned in the note.

Reduce: Reduce your exposure to the stock due to limited upside.

Sell: Exit from the stock.

Not rated/Neutral: The analyst has no investment opinion on the stock.

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

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