

July 29, 2022

Higher realisations help offset the cost partially...

About the stock: JK Lakshmi mainly caters to North, West & Eastern markets with total capacity of 13.3MT (Incl. 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 117MW power plant (74MW CPP, 33MW WHRS, and 10MW Solar) that fulfils its 75% of total power requirements.
- The company is now adding 2.5MT cement capacity (1.5MT clinker) through its subsidiary unit UCWL at cost of ~₹1650 crore.
- The company intends to take its total cement capacity to 30MT by 2030

Q1FY23 Results: The results were weak. However, it was better than estimates led by higher realisation.

- Revenues were up 26% YoY to ₹1,551 crore (vs I-direct est: ₹1,428.9 crore) led by realisation growth of 20.2% YoY. Volumes were up 4.8% YoY to 2.8MT with capacity utilisation of ~95%.
- EBITDA margin declined 356bps YoY and 446bps QoQ to 14%. It remained better than estimates (est. 11.6%) due to better realisations.
- PAT was down 15% YoY, 41% QoQ to ₹100.9 crore vs (vs our est: ₹74 crore)

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

- We continue to maintain HOLD rating on the stock

Target Price and Valuation: We value co. at ₹505 i.e.5.6x FY24E EV/EBITDA

Key triggers for future price performance:

- With capacity utilisation of 90%+, volume growth to remain subdued going forward as the new capacity will come on stream only by Q4FY24E.
- The recent commissioning of 10MW WHRS (total capacity now 33MW) along with increased share of alternate fuels (14%) to help contain the cost pressure to some extent in the wake of higher fuel prices
- BS 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 central based player Heidelberg Cement.

- The company is the cost efficient player in central India having a strong BS. It has good dividend yield of over 5%.
- BUY with a target price of ₹220/share



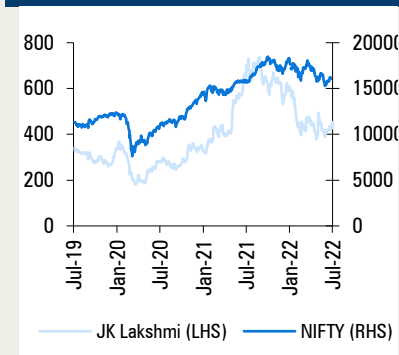
Particulars

Particular	Amount
Mcap	₹ 5179 crore
Debt (FY22)	₹ 1207 crore
Cash & Invest (FY22)	₹ 886 crore
EV	₹ 5500 crore
52 week H/L	₹816 / ₹ 366
Equity cap	₹ 59 crore
Face value	₹ 5

Shareholding pattern

(in %)	Sep-21	Dec-21	Mar-22	Jun-22
Promoter	46.01	46.01	46.31	46.31
FII	12.48	12.97	12.29	12.14
DII	26.16	24.96	25.87	25.21
Others	15.35	16.06	15.53	16.34

Price Chart



Key risks

- Any delay in commissioning of new capacities
- Volatility 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	5957	6379	12.5
EBITDA	415	672	790	801	24.5	778	1097	17.0
EBITDA (%)	10.7	16.6	18.0	15.9		13.1	17.2	
PAT	80	235	364	426	75.0	349	544	13.0
EPS (₹)	6.8	22.6	33.5	38.2		29.7	46.2	
EV/EBITDA	15.4	9.1	6.9	6.9		7.2	4.9	
EV/Tonne (\$)	86	0	0	0		60	58	
RoNW	5.2	15.5	19.0	18.3		14.2	18.5	
RoCE	9.3	17.1	21.1	18.1		16.3	22.5	

Source: Company, ICICI Direct Research

Key performance highlights

- Sales volumes were up 4.8% YoY to 2.79MT, it declined 11.4% on QoQ basis. The plant operated at 95% utilisation.
- Realisations increased sharply by 20.2% YoY to ₹5567/tonne mainly to offset against the sever cost pressure. With this increase the price gap range of ₹12-14% between large and mid-cement players like JKLC have now neutralised.
- Production cost were higher by 25.3%/23.3% YoY/QoQ to ₹4,788/tonne mainly led by fuel cost inflation. Hence, EBITDA margins declined 356bps YoY, 446bps QoQ to 14% (vs our estimate of 11.6%)
- The company reported EBITDA/t of ₹779/tonne (vs I-direct est: ₹570/t). Absolute EBITDA came in at ₹217 crore (flat YoY, down 21.5% QoQ) vs our estimated EBITDA of ₹165.1 crore
- PAT came in at ₹100.9 crore (I-direct est: ₹74 crore). It declined 15% YoY, 41.2% on QoQ basis.
- Company's subsidiary Udaipur Cement Works is expanding its cement capacity by 2.5MT which is likely to be commissioned in Mar-24E. On completion of this expansion, consolidated capacity of JKLC and UCWL will enhance to 16.4MT.
- Mr Arun Kumar Shukla has been appointed as President and Director, while Dr Shailendra Chouksey and Mr Sushil Kumar Wali shall cease to be directors / KMPs' of the company w.e.f. 1st Aug'22 on completion of their existing terms.

Key concall highlights

Demand: Demand has moderated in June-22 after staying healthy during April-May due to higher inflation. The ongoing monsoon to keep demand moderate in the medium term

Cement prices: Most market witnessed price increase during Q1. April-May saw a good improvement in the prices. With drop in the demand during June and ongoing monsoon, prices have also declined marginally by ₹10/bag.

Cost: Reported P&F cost of ₹11,700/tonne during Q1FY23. In terms of fuel mix, coal accounted for 46% (mostly international as domestic coal was diverted to power), 41% petcoke and 13% other alternative fuel. Expect P&F cost to increase further by 20% in Q2 that should broadly by the peak cost.

Capex at Company: At JKLC, no expansion currently. 10MW WHRS was commissioned in Q4FY22. Total WHRS capacity now stands at 33MW and share of renewable power is now 40%.

Capex at subsidiary- UCWL completed de-bottlenecking is now undergoing ₹1,650 crore expansion. To add 2.5MT cement and 1.5MT 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 4 years of moratorium. Company has spent ₹350 crore till date. The balance capex to be spent over next two years..

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 stood at ~₹1800 crore while net debt at ~₹650 crore. On standalone basis, gross debt stood at ₹920 while net debt is only ₹15-20 crore

Others: Trade sales at 57%. Lead distance – 393km. blending ratio – 67% vs 65% in Q4. MAT credit balance left is ₹250 crore that will be utilised over next 3 years.

Exhibit 1: Variance analysis

Particulars	Q1FY23	Q1FY23E	Q1FY22	YoY (%)	Q4FY22	QoQ (%)	Comments
Net Sales	1551.0	1428.9	1231.5	25.9	1,497.6	3.6	Realisations increased 20.2% YoY, capacity utilisation were at 95%.
EBITDA	217.0	165.1	216.1	0.4	276.2	-21.5	
EBITDA Margin (%)	14.0	11.6	17.5	-356 bps	18.4	-446 bps	Fuel inflation led to contraction in the margins
PAT	100.9	74.0	118.7	-15.0	171.7	-41.2	

Key Metrics

Volume (MT)	2.79	2.90	2.66	4.8	3.14	-11.4
Realisation (₹)	5,567	4,934	4,633	20.2	4,763	16.9
EBITDA per Tonne (₹)	779	570	813	-4.2	879	-11.4

Pet tonne cost

	Q1FY23	Q1FY23E	Q1FY22	YoY (%)	Q4FY22	QoQ (%)
Raw Material Expenses	1,373	1,100	1,091	25.8	1,270	8.1
Employee Expenses	331	263	312	5.9	229	44.2
Power and fuel	1,314	1,251	908	44.7	971	35.2
Freight	1,120	1,050	934	19.9	1,018	10.0
Others	651	700	574	13.3	396	64.4
Total	4,788	4,364	3,820	25.3	3,885	23.3

Source: Company, ICICI Direct Research

Key triggers for future price performance

To add 2.5MT cement capacity through its subsidiary in Rajasthan: With CU utilisations reaching over 90%, the company will now be adding cement capacity of 2.5MT (1.5TM clinker) at its existing plant in Udaipur unit (through subsidiary co Udaipur Cement Works Ltd) 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 4 years has led to co generating annual OCF of over ~₹400 crore. Further, with liquidity buffer of ₹337 crore, we believe, the company is in better position fund this new expansion.

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

Valuation & Outlook: The Company may remain laggard in terms of growth during FY22-24E due to delayed capacity expansion. Given medium-term cost challenges, we continue to maintain neutral stance the company and retain our HOLD rating with unchanged TP of ₹505/share (@ 5.6x FY24EV/EBITDA)

Exhibit 2: Change in estimates

(₹ Crore)	FY23E			FY24E			Comments
	Old	New	% Change	Old	New	% Change	
Revenue	5,344.5	5,956.9	11.5	NA	6,378.6	NA	
EBITDA	833.4	778.2	-6.6	NA	1,097.4	NA	
EBITDA Margin (%)	15.6	13.1	-253 bps	NA	17.2	NA	
PAT	412.0	349.5	-15.2	NA	544.1	NA	
EPS (₹)	35.0	29.7	-15.2	NA	46.2	NA	

Source: Company, ICICI Direct Research

Financial story in charts

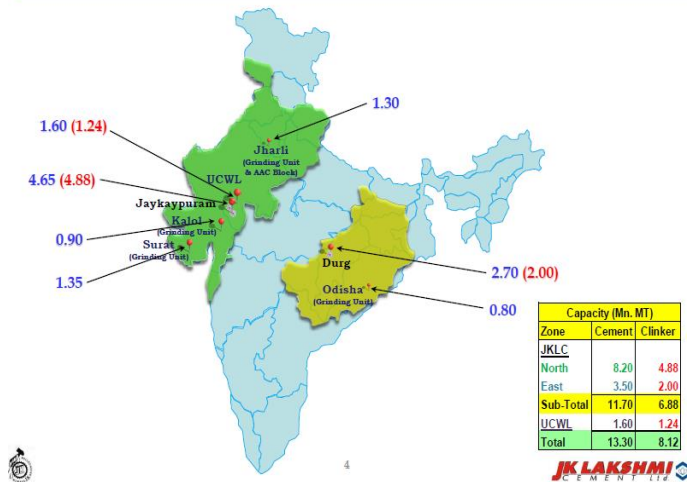
Exhibit 3: Clinker and Cement capacity

	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)						
	Clinker capacity		1.2	1.5	3.0	
	Cement Capacity [B]		West	1.6	2.2	4.7
Total Capacity [A+B]			13.3	13.9	16.4	

Source: Company, ICICI Direct Research

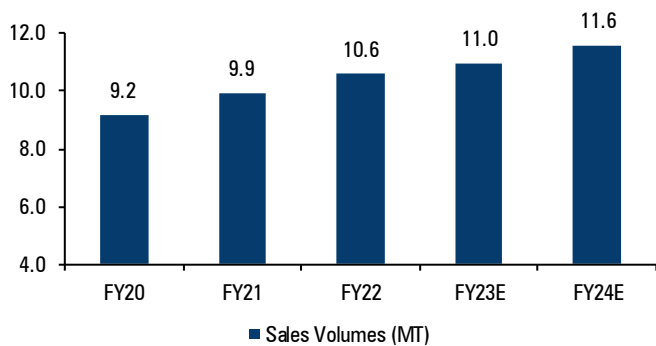
Exhibit 4: Location wise cement capacity

Mother Plants – Cement (Clinker) - Mn.MT



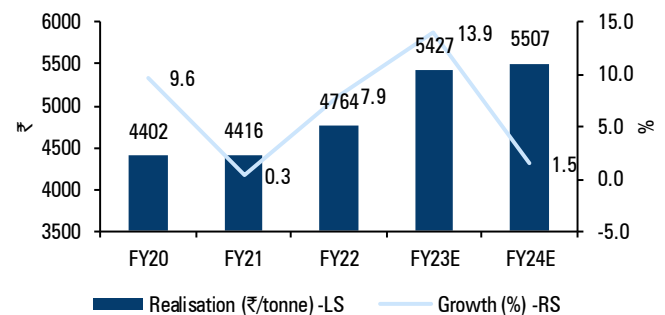
Source: Company, ICICI Direct Research

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



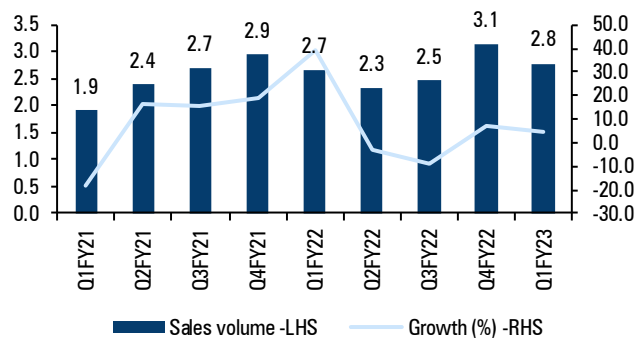
Source: Company, ICICI Direct Research

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



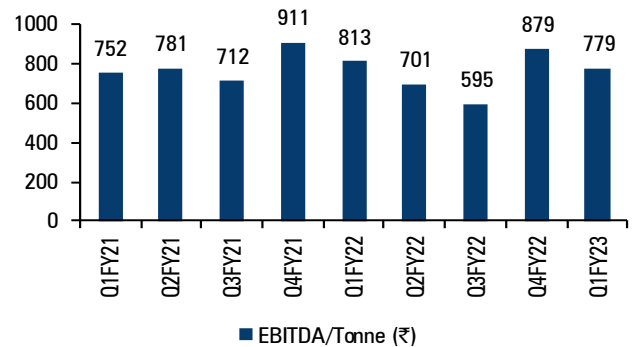
Source: Company, ICICI Direct Research

Exhibit 7: Volumes improved 4.8% YoY in Q1FY23



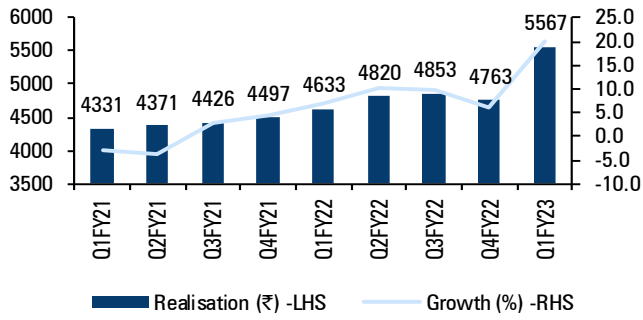
Source: Company, ICICI Direct Research

Exhibit 8: ..EBITDA/t declined on higher cost pressure



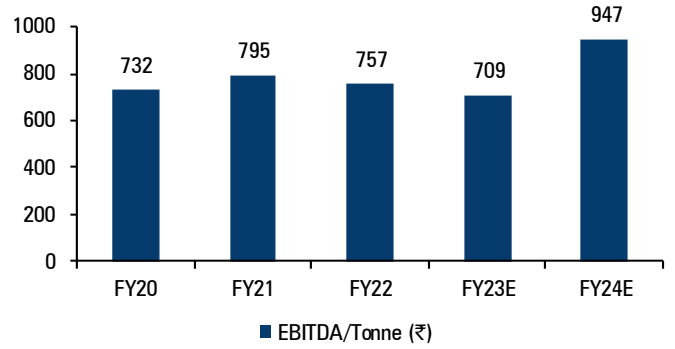
Source: Company, ICICI Direct Research

Exhibit 9: Realisations were up 20.2% YoY



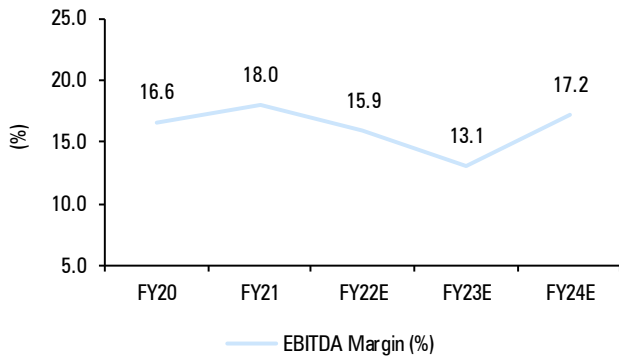
Source: Company, ICICI Direct Research

Exhibit 10: EBITDA/t trend



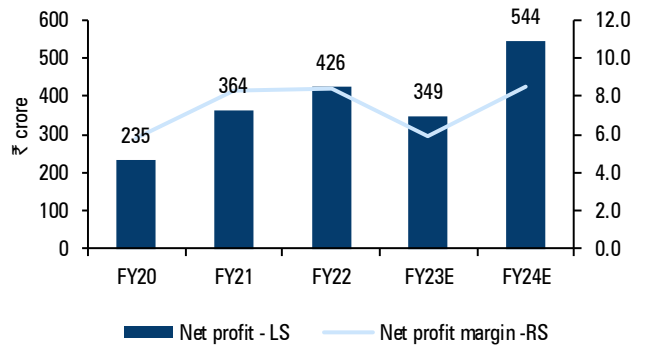
Source: Company, ICICI Direct Research

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



Source: Company, ICICI Direct Research

Exhibit 12: PAT to improve from FY24 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	5,956.9	6,378.6
Growth (%)	4.2	8.4	15.0	18.2	7.1
Raw material	952.4	1083.9	1238.3	1364.4	1540.5
Power & Fuel	843.9	779.8	1065.6	1557.5	1317.6
Employees	303.1	327.0	326.4	371.2	396.1
Freight	817.6	883.2	1042.8	1198.3	1274.1
Others	454.2	521.2	566.3	687.3	752.9
Total Expenses	3,371.1	3,595.0	4,239.5	5,178.7	5,281.3
EBITDA	672.4	789.7	801.3	778.2	1,097.4
Growth (%)	52.2	17.5	1.5	-2.9	41.0
Depreciation	188.4	194.2	190.5	192.3	194.1
Interest	163.6	142.5	96.3	98.8	120.7
Other Income	49.3	74.6	67.3	46.4	52.0
Exceptional items	30.2	30.9	23.4	0.0	0.0
PBT	339.5	496.7	558.3	533.6	834.5
Total Tax	104.2	132.8	132.1	184.1	290.4
PAT	235.2	363.9	426.3	349.5	544.1
Adjusted PAT	265.5	394.9	449.7	349.5	544.1
Growth (%)	233.6	48.8	13.9	-22.3	55.7
Adjusted EPS (₹)	22.6	33.5	38.2	29.7	46.2

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	2,409.5	2,882.6
Total Shareholders func	1,708.7	2,078.9	2,452.4	2,468.4	2,941.5
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	3,994.4	4,367.5
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	488.0	595.5
Debtors	88.2	53.7	34.5	96.1	78.7
Loans and Advances	274.9	293.1	173.8	421.9	853.8
Non current Investment	383.1	403.5	421.3	421.3	421.3
Cash	29.3	359.1	337.2	338.1	475.7
Total Current Assets	1,188.3	1,424.7	1,458.0	1,765.4	2,425.1
Creditors	1,220.7	1,279.6	933.9	1,187.8	1,258.8
Provisions	16.9	18.6	26.7	22.0	23.3
Total Current Liabilities	1,237.6	1,298.3	960.6	1,209.7	1,282.1
Net Current Assets	-49.4	126.5	497.4	555.7	1,142.9
Application of Fund	3,306.7	3,363.1	3,878.4	3,994.4	4,367.5

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	349.5	544.1
Add: Depreciation	188.4	194.2	190.5	192.3	194.1
(Inc)/dec in Current Assets	-80.8	131.8	-156.5	-58.4	-90.0
Inc/(dec) in CL and Prov.	93.4	60.6	-337.7	249.2	72.4
CF from operations	436.2	750.6	122.6	732.5	720.6
(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	-248.1	-431.9
CF from investing	-157.1	-65.1	-264.9	-498.1	-411.9
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	0.9	137.7
Opening Cash	18.0	29.3	359.1	337.2	338.1
Closing Cash	31.1	357.3	337.2	338.1	475.7

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	29.7	46.2
Cash EPS	36.0	47.4	52.4	46.0	62.7
BV	145.2	176.6	208.4	209.7	249.9
DPS	0.0	3.8	5.0	4.0	5.0
Cash Per Share	2.5	30.5	28.6	28.7	40.4
Operating Ratios (%)					
EBITDA Margin	16.6	18.0	15.9	13.1	17.2
PAT Margin	5.8	8.3	8.5	5.9	8.5
Inventory days	32.7	30.3	29.2	30.0	31.0
Debtor days	8.9	5.9	3.2	4.0	5.0
Creditor days	105.5	104.1	80.1	65.0	70.0
Return Ratios (%)					
RoE	15.5	19.0	18.3	14.2	18.5
RoCE	17.1	21.1	18.1	16.3	22.5
RoIC	17.9	24.7	21.2	19.4	27.6
Valuation Ratios (x)					
P/E	21.8	14.1	12.0	14.7	9.4
EV / EBITDA	9.0	6.9	6.8	7.1	4.8
EV / Net Sales	1.5	1.2	1.1	0.9	0.8
Market Cap / Sales	1.3	1.2	1.0	0.9	0.8
Price to Book Value	3.4	3.0	2.5	2.1	2.1
Solvency Ratios					
Debt/EBITDA	2.1	1.3	1.5	1.7	1.1
Debt / Equity	0.8	0.5	0.5	0.5	0.4
Current Ratio	0.7	0.8	1.1	1.1	1.6
Quick Ratio	0.6	0.5	0.7	0.8	1.2

Source: Company, ICICI Direct Research

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Buy: > 15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: < -15%



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