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Stock Update

Result Update

JK Lakshmi Cement Ltd

Mixed bag quarter; valuations favourable

Cement	Sharekhan code: JKLAKSHMI
Reco/View: Buy ↔	CMP: **Rs. 443**
Price Target: **Rs. 560** ↓	

↑ Upgrade ↔ Maintain ↓ Downgrade

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 41.62

Updated July 08, 2022

Medium Risk

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

Source: Morningstar

Company details

Market cap:	Rs. 5,207 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	12.1
DII	25.2
Others	16.4

Price chart

Price performance

(%)	1m	3m	6m	12m
Absolute	5.6	0.7	-21.3	-36.0
Relative to Sensex	-3.0	-0.3	-20.6	-45.5

Sharekhan Research, Bloomberg

Summary

- We retain our Buy rating on JK Lakshmi Cement with a revised PT of Rs. 560 led by downward revision in estimates and considering favourable valuation.
- JKL reported better-than-expected standalone revenues while EBITDA/tonne stayed in-line. Net earnings lagged estimates. Change in reporting of clinker purchase from UCW led to optically lower volumes and higher realisations & costs.
- The company witnessed change at the helm with the appointment of Mr. Arun Kumar Jain as CEO and retiring of couple of directors w.e.f. August 1, 2022.
- UCW expansion at Rs. 1650 crore capex remain on track for FY2024 end commissioning. Target to achieve 30mtpa capacity by 2030 through brownfield and greenfield expansions.

JK Lakshmi Cement Limited's (JKL's) standalone revenues beat estimates, coming in at Rs. 1551 crore (up 26% y-o-y) led by higher blended realisations (up 20% y-o-y at Rs. 5575/tonne), while volumes grew by 4.7% y-o-y to 2.8 million tonnes. Standalone EBITDA/tonne at Rs. 780 (down 4% y-o-y) stayed in line with our estimate of Rs. 788/tonne. From Q1FY2023, the company changed the reporting of clinker purchased from its subsidiary UCW, to conversion charges getting accounted in JKL's standalone books as against earlier treatment of clinker sales and purchase. Consequently, there were optically lower volumes, higher realisations per tonne and higher costs per tonne. Its standalone net profits were lower than estimate at Rs. 101 crore (down 15% y-o-y) on account of lower other income (utilisation of funds for UCW expansion) and higher effective tax rate. The company saw a change in key management personnel with Mr. Arun Kumar Jain as the new CEO, while Dr. Shailendra Chouksey and Mr. Sunil Kumar are retiring from directorship w.e.f. August 1, 2022. The company also highlighted its vision of reaching 30mtpa cement capacity by 2030 led by brownfield and Greenfield expansions.

Key positives

- Blended realizations rose 20% y-o-y and 17% q-o-q at Rs. 5575/tonne.
- EBITDA/tonne was in line with estimates as higher realisations partly offset the steep rise in costs especially power & fuel and other costs, which were up 35% q-o-q and 65% q-o-q on per tonne basis.

Key negatives

- Sales volumes grew by just 4.7% y-o-y (down 11.5% q-o-q) to 2.8 million tones partly on account of change in reporting of clinker sales purchased from its subsidiary.
- Lower other income and higher effective tax rate led to lower than estimated standalone net profit.

Management Commentary

- It has brownfield expansion opportunities of adding one more line in each of the units in UCW, Durg and Sirohi. It has two mining blocks in Nagaur, Rajasthan and one in Kutch, Gujarat to support capacity expansions.
- The commissioning of 1.5mtpa clinker and 2.5 mtpa grinding unit remain on track on December 2023 and March 2024 respectively. Out of Rs. 1650 crore of capex, it has incurred Rs. 350 crore till date.
- Standalone debt and cash stood at Rs. 920 crore and Rs. 900 crore with a net debt of Rs. 20 crore. It expects to be standalone net debt-free by FY2023 end. Consolidated debt and cash stood at Rs. 1800 crore and Rs. 1150 crores.
- Cement demand grew on y-o-y basis in July 2022. Power & fuel costs are expected to rise 20% q-o-q in Q2FY2023, which is expected to peak out.

Revision in estimates – We have lowered our net earnings estimates for FY2023-FY2024 penciling higher costs which more than offsets the revised higher realisations.

Our Call

Valuation – Retain Buy with a revised PT of Rs. 560: JKL is expected to see healthy demand going ahead although increased cost structure is expected to offset the higher realisations. Its expansion plans at UCW remain on track while it has chalked out its vision of achieving 30mtpa capacity by 2030 with access to two mines in Rajasthan and one in Gujarat. It continues to focus on enhancing dealer network, reducing lead distance and increase premium product sales which are expected to improve upon its operational efficiencies. It is currently trading at an undemanding valuation of EV/EBITDA of 4.4x its FY2024E earnings. Hence, we retain Buy on the stock with a revised price target (PT) of Rs. 560 on account of a downward revision in estimates.

Key Risks

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

Valuation (Standalone) Rs cr

Particulars	FY21	FY22	FY23E	FY24E
Revenue	4,385	5,041	6,139	6,577
OPM (%)	18.0	15.9	13.8	13.6
Adjusted PAT	364	426	408	450
% y-o-y growth	55	17	-4	10
Adjusted EPS (Rs.)	33.5	38.2	34.7	38.3
P/E (x)	13.2	11.6	12.8	11.6
P/B (x)	2.5	2.1	1.9	1.6
EV/EBITDA (x)	6.6	6.1	5.2	4.4
RoNW (%)	20.8%	19.8%	15.6%	15.1%
RoCE (%)	15.2%	15.3%	13.1%	13.0%

Source: Company; Sharekhan estimates

EBITDA/tonne remain in-line; PAT below estimate

JK Lakshmi Cement reported standalone net revenues growth of 25.9% y-o-y at Rs. 1551 crore, 9% higher than our estimate. Cement volumes were up 5% y-o-y (-11% q-o-q) which were lower than our expectation. Blended realisations rose 20% y-o-y (+17% q-o-q) which were higher than our expectation. Blended standalone EBITDA/tonne at Rs. 779 (-4% y-o-y, -11% q-o-q) was in-line with our estimate of Rs. 788/tonne. The power & fuel costs stood at Rs. 1314/tonne (+45% y-o-y, +35% q-o-q), freights costs at Rs. 1120/T (+20% y-o-y, +10% q-o-q) and other expenses at Rs. 651/tonne (+13% y-o-y, +64% q-o-q) for Q1FY2023. Lower other income (-56% y-o-y, -58% q-o-q) and higher effective tax rate (33.8% versus 26.4% in Q1FY2022) led to adjusted standalone net profit decline of 15% y-o-y (-48% q-o-q) at Rs. 101 crore which was 16% lower than our estimates.

Capacity expansion on track

Udaipur Cement Works (UCW), its listed subsidiary is undertaking Rs. 1650 crore capex plan which would increase its clinker capacity to 3MT (from 1.5MT) and cement capacity to 4.7 MT (from 2.2 MT). The commissioning of 1.5mtpa clinker and 2.5mtpa grinding unit remain on track on December 2023 and March 2024, respectively. Out of Rs. 1650 crore of capex, it has incurred Rs. 350 crore till date. Additionally, it intends to increase its cement capacity by 30 mtpa by 2030 through brownfield and Greenfield routes. It has brownfield expansion opportunities of adding one more line in each of the units in UCW, Durg and Sirohi. It has two mining blocks in Nagaur, Rajasthan and one in Kutch, Gujarat to support capacity expansions. It would commence next phase of expansions from one year prior to completion of UCW expansion. The land acquisition process for greenfield expansion has started.

Management Key Concall highlights

- **Key management personnel changes:** Mr. Arun Kumar Shukla is appointed as President and Director of the company w.e.f. August 1, 2022. Dr. Shailendra Chouksey and Mr. Sushil Kumar Wali shall cease to be directors of the company w.e.f. August 1, 2022.
- **Accounting reporting change:** The clinker purchased from its subsidiary UCW would be accounted at conversion charges in JKL's standalone operations versus earlier accounting of clinker sales in UCW books, clinker purchase and sales in JKL's standalone books which was leading to double accounting. Consequently, in Q1FY2023, JKL's standalone sales volumes do not include clinker sales getting reflecting in lower volumes and higher realisations and costs per tonne.
- **Expansion plans:** The company intends to increase its cement capacity by 30mtpa by 2030 through brownfield and Greenfield routes. It has brownfield expansion opportunities of adding one more line in each of the units in UCW, Durg and Sirohi. It has two mining blocks in Nagaur, Rajasthan and one in Kutch, Gujarat to support capacity expansions. It would commence next phase of expansions from one year prior to completion of UCW expansion. Land acquisition process for Greenfield expansion has started.
- **UCW expansion:** The commissioning of a 1.5-mtpa clinker and a 2.5-mtpa grinding unit remain on track on December 2023 and March 2024 respectively. Out of Rs. 1650 crore of capex, it has incurred Rs. 350 crore till date.
- **Volumes:** For Q1FY2023, standalone cement volumes were 26.91 lakh tonnes, clinker volumes were 0.91 lakh tonne totalling to 27.86 lakh tonnes. UCW volumes were 5.55 lakh tonnes. The consolidated cement volumes were 29.37 lakh tonnes and clinker volumes of 0.95 lakh tonnes totalling to 30.32 lakh tonnes.
- **Debt:** Standalone debt and cash stood at Rs. 920 crore and Rs. 900 crores with net debt of Rs. 20 crore. It expects standalone net debt free by FY2023 end. The consolidated debt and cash stood at Rs. 1800 crore and Rs. 1150 crore.

- **Demand:** Cement demand rose y-o-y in July 2022.
- **Pricing:** Most markets witnessed increase in cement prices in April and May. The average cement prices in Gujarat and Northern markets witnessed a correction of Rs. 10/bag in July due to seasonality. Chattisgarh region saw minor pressure on cement prices.
- **Power & fuel costs:** Average power costs booked during Q1FY2023 was Rs. 11,700 per tonne as against Rs. 9000 per tonne in Q4FY2022. It may see further increase of 20% q-o-q in Q2FY2023 which is expected to be the peak and should see downward trend in succeeding quarters.
- **Other expense:** During the quarter, other expenses rose as some line items like stores & spares and packaging are linked to volumes which saw growth during the quarter.
- **Other income:** The other income was lower as funds have started been utilised for UCW expansion.
- **Fuel mix:** The fuel mix for Q1FY2023 was coal 46% (domestic coal 7-8%), Pet coke 41% and alternate fuels 13%.
- **Other highlights:** Its blending mix stood at 67%, trade mix at 56% with premium cement comprising 14% of overall sales. Sale of value added products was Rs. 118 crores out of which RCC sales were 55 crores. The lead distance was 393 km.

Results (Standalone) Rs cr

Particulars	Q1FY2023	Q1FY2022	% y-o-y	Q4FY2022	% q-o-q
Net Sales	**1551.0**	**1231.5**	**25.9%**	**1497.6**	**3.6%**
Total Expenditure	1334.0	1015.5	31.4%	1221.4	9.2%
Operating profit	**217.0**	**216.1**	**0.4%**	**276.2**	**-21.5%**
Other Income	7.4	16.9	-56.0%	17.6	-57.9%
EBIDTA	224.4	232.9	-3.7%	293.9	-23.6%
Interest	24.7	25.7	-3.7%	21.9	12.9%
PBDT	199.7	207.3	-3.7%	272.0	-26.6%
Depreciation	47.3	46.0	2.9%	50.7	-6.6%
PBT	**152.4**	**161.3**	**-5.5%**	**221.3**	**-31.2%**
Tax	51.5	42.6	20.9%	26.2	96.4%
Extraordinary items	0.0	0.0	-	-23.4	
Reported Profit After Tax	100.9	118.7	-15.0%	171.7	-41.2%
Adjusted PAT	**100.9**	**118.7**	**-15.0%**	**195.1**	**-48.3%**
EPS (Rs.)	8.6	10.1	-15.0%	16.6	-48.3%
Margins (%)			**BPS**		**BPS**
OPMs	14.0%	17.5%	(356)	18.4%	(446)
PAT	6.5%	9.6%	(313)	13.0%	(652)
Tax rate	33.8%	26.4%	738	11.8%	2,193

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 past five years. The cement industry is expected to witness improvement in demand as the situation normalises 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 going ahead.

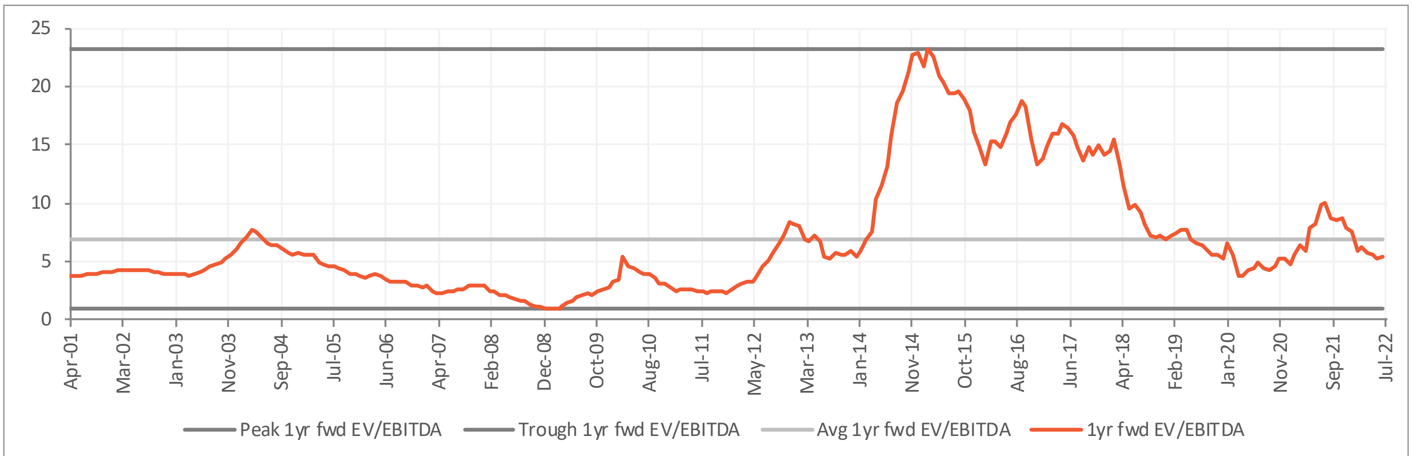
■ Company Outlook – Capacity expansion to provide the next leg of growth from FY2025

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 utilisation 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 for 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. 560

JKL is expected to see healthy demand going ahead although increased cost structure is expected to offset the higher realisations. Its expansion plans at UCW remain on track while it has chalked out its vision of achieving 30mtpa capacity by 2030 with access to two mines in Rajasthan and one in Gujarat. It continues to focus on enhancing dealer network, reducing lead distance and increase premium product sales which are expected to improve upon its operational efficiencies. It is currently trading at an undemanding valuation of EV/EBITDA of 4.4x its FY2024E earnings. Hence, we retain Buy on the stock with a revised price target (PT) of Rs. 560 on account of a downward revision in estimates.

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	30.8	27.1	15.6	13.9	3.4	3.1	11.8	11.9
Shree Cement	48.3	31.4	20.1	14.5	4.0	3.6	8.6	12.1
JK Lakshmi Cement	12.8	11.6	5.2	4.4	1.9	1.6	15.6	15.1
Dalmia Bharat	40.7	33.2	11.4	9.9	1.8	1.7	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
Shri Arun Kumar Shukla	President & Director
S A Bidkar	Chief Financial 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 detoriating 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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