JK Lakshmi Cement (JKLC IN)

Rating: ACCUMULATE | CMP: Rs437 | TP: Rs555

July 29, 2022

Q1FY23 Result Update

☑ Change in Estimates | ☑ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY23E	FY24E	FY23E	FY24E
Rating	**ACCUMULATE**		**ACCUMULATE**	
Target Price	**555**		**570**	
Sales (Rs. m)	56,958	57,444	55,267	55,779
% Chng.	*3.1*	*3.0*		
EBITDA (Rs. m)	7,737	8,623	8,289	8,849
% Chng.	*(6.7)*	*(2.6)*		
EPS (Rs.)	33.2	39.6	36.5	41.0
% Chng.	*(9.2)*	*(3.4)*		

Key Financials - Standalone

Y/e Mar	FY21	FY22	FY23E	FY24E
Sales (Rs. m)	43,847	50,408	56,958	57,444
EBITDA (Rs. m)	7,898	8,013	7,737	8,623
Margin (%)	*18.0*	*15.9*	*13.6*	*15.0*
PAT (Rs. m)	3,865	3,850	3,903	4,664
EPS (Rs.)	32.8	32.7	33.2	39.6
Gr. (%)	*50.9*	*(0.4)*	*1.4*	*19.5*
DPS (Rs.)	3.7	5.0	5.0	5.0
Yield (%)	*0.9*	*1.1*	*1.1*	*1.1*
RoE (%)	*20.4*	*17.1*	*15.0*	*15.7*
RoCE (%)	*18.7*	*18.5*	*16.4*	*18.0*
EV/Sales (x)	1.3	1.0	0.8	0.7
EV/EBITDA (x)	7.0	6.5	6.2	4.9
PE (x)	13.3	13.4	13.2	11.0
P/BV (x)	2.5	2.1	1.9	1.6

Key Data	JKLC.BO | JKLC IN
52-W High / Low	Rs.816 / Rs.366
Sensex / Nifty	56,858 / 16,930
Market Cap	Rs.51bn/ $ 645m
Shares Outstanding	118m
3M Avg. Daily Value	Rs.253.91m

Shareholding Pattern (%)

Promoter's	46.31
Foreign	12.29
Domestic Institution	25.87
Public & Others	15.54
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	5.0	(22.5)	(39.8)
Relative	(1.8)	(22.0)	(44.4)

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In-line performance; Quality of operations on a strong footing

Quick Pointers:

- Coal cost will increase by another 20% QoQ in Q2
- Consolidated Net debt flat QoQ at Rs6.5bn; Debt free on standalone level

JK Lakshmi (JKLC) reported Q1FY23 earnings in line with our/consensus estimates. EBITDA remained flat YoY at Rs2.57bn as fall in margins were offset by growth in volumes. Cost increased much higher than expectation. But, equally strong realisations negated the increase in costs. We cut our EBITDA estimates by 6.7%/2.6% for FY23e/FY24e due to incommensurate increase in realisations compared to sharp rise in costs.

JKLC's margins have started inching above its average rate of Rs750/t as concentrated efforts on 1) reducing share of lower margin clinker volumes, 2) optimisation of lead distance and 3) narrowing the gap on prices with peers have started paying off. This has helped JKLC to reduce the gap on margins with its peers. Underpinned by Improved quality of operations and attractive valuations, we maintain Accumulate with TP of Rs555, EV/EBITDA of 7.0x FY24e.

- **Strong realisations negates steep increase in costs:** Sales volumes grew 7% YoY at 3.0mnt (PLe:2.9mnt). Realisations increased 12% QoQ/Rs595 (+16% YoY/Rs763) at Rs5,455/t (PLe:Rs5,255) on back of lower share of clinker volumes. (3% v/s 6%/14% in Q4FY22/Q1FY22) and higher increase in prices. Strong realisations were more than offset by higher energy and freight costs. Power & fuel cost increased 44% YoY (up 34% QoQ) at Rs1,500/t, much below our estimate of Rs1,400. Freight cost grew 16% YoY to Rs1,080 (PLe:Rs980). Led by sharp increase across the components, Cost increased 22% YoY to Rs4,610 (PLe:Rs4,760). Due to incommensurate increase in realisations against rise in costs, EBITDA/t declined 7% YoY to Rs847 (PLe:Rs800). Impacted by lower other income (MTM loss on treasury investments due to increase in interest rate) and higher tax rate (33% v/s 26% in LY), PAT fell 15% YoY to Rs1.1bn (PLe:Rs1.2bn).
- **Key highlights of earnings con-call: 1)** Target to augment capacity by more than double to 30mnt by 2030 from current 14mnt **2)** Greenfield plants at mines acquired in Rajasthan and Gujarat would be part of the capacity growth plan **3)** Maintained capex guidance of Rs7bn/Rs9bn for FY23e/FY24e in Udaipur cement works (UCWL) towards its 2.5mnt brownfield expansion having total outlay of Rs16.5bn **4)** Spent Rs3.5bn on the project till Q1FY23 **5)** Commissioning of expansion project on track for commissioning in March-24 **6)** Share of pet coke further reduced by 1500bps QoQ to 41%; Thermal coal's share increased 1600bps to 46% with AFR's share in the mix stable at 13% **7)** Share of trade sales remained stable at 56% **8)** Blended coal cost increased by 30% QoQ to Rs11,700/t in Q1FY23

Exhibit 1: Q1FY23 Result Overview (Rs mn)

Y/e March	Q1FY23	Q1FY22	YoY gr. (%)	Q4FY22	FY23E	FY22	YoY gr. (%)
Net Sales	**15,510**	**12,315**	***25.9***	**14,976**	**56,958**	**50,408**	***13.0***
Raw Material	3,826	2,901	*31.9*	3,994	13,879	12,383	*12.1*
% of Net Sales	*24.7*	*23.6*		*26.7*	*24.4*	*24.6*	
Staff Costs	922	830	*11.0*	721	3,493	3,264	*7.0*
% of Net Sales	*5.9*	*6.7*		*4.8*	*6.1*	*6.5*	
Power & Fuel	3,660	2,414	*51.6*	3,054	14,004	10,656	*31.4*
% of Net Sales	*23.6*	*19.6*		*20.4*	*24.6*	*21.1*	
Freight and selling expenses	3,120	2,483	*25.7*	3,200	11,440	10,428	*9.7*
% of Net Sales	*20.1*	*20.2*		*21.4*	*20.1*	*20.7*	
Other Expenses	1,813	1,527	*18.7*	1,245	6,406	5,663	*13.1*
% of Net Sales	*11.7*	*12.4*		*8.3*	*11.2*	*11.2*	
Total Expenditure	13,340	10,155	*31.4*	12,214	49,221	42,395	*16.1*
EBITDA	**2,170**	**2,161**	***0.4***	**2,762**	**7,737**	**8,013**	***(3.4)***
Margin (%)	*14.0*	*17.5*		*18.4*	*13.6*	*15.9*	
Depreciation	473	460	*2.9*	507	2,026	1,905	*6.3*
Other income	74	169	*(56.0)*	176	726	673	*8.0*
EBIT	**1,771**	**1,869**	***(5.3)***	**2,432**	**6,438**	**6,780**	***(5.0)***
Interest	247	257	*(3.7)*	219	726	963	*(24.6)*
PBT	**1,524**	**1,613**	***(5.5)***	**2,213**	**5,712**	**5,817**	***(1.8)***
Extraordinary income/(expense)	-	-		(234)	-	(234)	
PBT (After EO)	1,524	1,613	*(5.5)*	1,979	5,712	5,583	*2.3*
Tax	515	426	*20.9*	1,008	1,556	1,321	*17.8*
% PBT	*33.8*	*26.4*		*50.9*	*27.2*	*23.7*	
Reported PAT	**1,009**	**1,187**	***(15.0)***	**971**	**4,156**	**4,262**	***(2.5)***
Adjusted PAT	**1,009**	**1,187**	***(15.0)***	**1,086**	**3,903**	**3,786**	***3.1***

Source: Company, PL

Exhibit 2: Key Operating Metrics

Y/e March	Q1FY23	Q1FY22	YoY gr. (%)	Q4FY22	FY23E	FY22	YoY gr. (%)
Volume (mn te)	2.8	2.7	*4.8*	3.1	11.1	10.6	*4.5*
Net Realisations (Rs/te)	5,567	4,633	*20.2*	4,763	5,154	4,766	*8.1*
EBITDA/ te (Rs/te)	779	813	*(4.2)*	879	700	758	*(7.6)*

Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY21	FY22	FY23E	FY24E
Net Revenues	**43,847**	**50,408**	**56,958**	**57,444**
YoY gr. (%)	*8.4*	*15.0*	*13.0*	*0.9*
Cost of Goods Sold	10,839	12,383	13,879	14,396
Gross Profit	33,008	38,025	43,079	43,048
Margin (%)	*75.3*	*75.4*	*75.6*	*74.9*
Employee Cost	3,270	3,264	3,493	3,668
Other Expenses	5,212	5,663	6,406	6,659
EBITDA	**7,898**	**8,013**	**7,737**	**8,623**
YoY gr. (%)	*17.5*	*1.5*	*(3.4)*	*11.4*
Margin (%)	*18.0*	*15.9*	*13.6*	*15.0*
Depreciation and Amortization	1,942	1,905	2,026	2,066
EBIT	**5,956**	**6,108**	**5,712**	**6,556**
Margin (%)	*13.6*	*12.1*	*10.0*	*11.4*
Net Interest	1,425	963	980	780
Other Income	745	673	726	746
Profit Before Tax	**4,966**	**5,583**	**5,458**	**6,523**
Margin (%)	*11.3*	*11.1*	*9.6*	*11.4*
Total Tax	1,328	1,321	1,556	1,859
Effective tax rate (%)	*26.7*	*23.7*	*28.5*	*28.5*
Profit after tax	**3,638**	**4,262**	**3,903**	**4,664**
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	**3,865**	**3,850**	**3,903**	**4,664**
YoY gr. (%)	*50.9*	*(0.4)*	*1.4*	*19.5*
Margin (%)	*8.8*	*7.6*	*6.9*	*8.1*
Extra Ord. Income / (Exp)	(227)	(179)	-	-
Reported PAT	**3,638**	**4,262**	**3,903**	**4,664**
YoY gr. (%)	*54.7*	*17.1*	*(8.4)*	*19.5*
Margin (%)	*8.3*	*8.5*	*6.9*	*8.1*
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	3,638	4,262	3,903	4,664
Equity Shares O/s (m)	**118**	**118**	**118**	**118**
EPS (Rs)	**32.8**	**32.7**	**33.2**	**39.6**

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY21	FY22	FY23E	FY24E
Non-Current Assets				
Gross Block	**37,155**	**39,321**	**40,121**	**40,921**
Tangibles	37,155	39,321	40,121	40,921
Intangibles	-	-	-	-
Acc: Dep / Amortization	**10,536**	**12,441**	**14,466**	**16,533**
Tangibles	10,536	12,441	14,466	16,533
Intangibles	-	-	-	-
Net fixed assets	**26,620**	**26,880**	**25,655**	**24,389**
Tangibles	26,620	26,880	25,655	24,389
Intangibles	-	-	-	-
Capital Work In Progress	2,533	1,349	1,349	1,349
Goodwill	-	-	-	-
Non-Current Investments	4,841	4,670	7,934	7,934
Net Deferred tax assets	(641)	(1,200)	(1,745)	(2,398)
Other Non-Current Assets	23	23	23	23
Current Assets				
Investments	3,673	3,673	3,673	3,673
Inventories	3,155	4,912	4,994	5,036
Trade receivables	537	345	1,092	1,102
Cash & Bank Balance	3,591	5,369	7,579	11,623
Other Current Assets	1,392	755	755	755
Total Assets	**46,614**	**48,198**	**53,276**	**56,105**
Equity				
Equity Share Capital	589	589	589	589
Other Equity	20,201	23,751	27,066	31,141
Total Networth	**20,789**	**24,340**	**27,654**	**31,730**
Non-Current Liabilities				
Long Term borrowings	11,247	9,797	7,797	5,797
Provisions	135	135	135	135
Other non current liabilities	1,845	943	943	943
Current Liabilities				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	3,962	2,983	5,462	5,508
Other current liabilities	5,556	6,087	6,593	6,631
Total Equity & Liabilities	**46,614**	**48,198**	**53,276**	**56,105**

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY21	FY22	FY23E	FY24E
PBT	5,275	5,817	5,458	6,523
Add. Depreciation	1,942	1,905	2,026	2,066
Add. Interest	1,425	963	980	780
Less Financial Other Income	745	673	726	746
Add. Other	(575)	(446)	(500)	(520)
Op. profit before WC changes	8,068	8,239	7,963	8,849
Net Changes-WC	1,426	(1,804)	2,388	50
Direct tax	(872)	(1,033)	(1,010)	(1,207)
Net cash from Op. activities	**8,622**	**5,402**	**9,342**	**7,692**
Capital expenditures	(1,208)	(1,216)	(800)	(800)
Interest / Dividend Income	-	-	-	-
Others	(2,068)	446	(2,764)	520
Net Cash from Invt. activities	**(3,276)**	**(770)**	**(3,564)**	**(280)**
Issue of share cap. / premium	-	-	-	-
Debt changes	(3,457)	(1,450)	(2,000)	(2,000)
Dividend paid	(5)	(441)	(588)	(588)
Interest paid	(1,445)	(963)	(980)	(780)
Others	-	-	-	-
Net cash from Fin. activities	**(4,907)**	**(2,854)**	**(3,568)**	**(3,368)**
Net change in cash	**439**	**1,778**	**2,210**	**4,044**
Free Cash Flow	7,414	4,186	8,542	6,892

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q2FY22	Q3FY22	Q4FY22	Q1FY23
Net Revenue	**11,182**	**11,934**	**14,976**	**15,510**
YoY gr. (%)	*7.0*	*0.1*	*13.3*	*25.9*
Raw Material Expenses	2,782	2,706	3,994	3,826
Gross Profit	8,400	9,228	10,982	11,684
Margin (%)	*75.1*	*77.3*	*73.3*	*75.3*
EBITDA	**1,626**	**1,464**	**2,762**	**2,170**
YoY gr. (%)	*(12.9)*	*(23.7)*	*3.1*	*0.4*
Margin (%)	*14.5*	*12.3*	*18.4*	*14.0*
Depreciation / Depletion	470	468	507	473
EBIT	**1,155**	**996**	**2,255**	**1,696**
Margin (%)	*10.3*	*8.3*	*15.1*	*10.9*
Net Interest	237	251	219	247
Other Income	163	164	176	74
Profit before Tax	**1,081**	**910**	**1,979**	**1,524**
Margin (%)	*9.7*	*7.6*	*13.2*	*9.8*
Total Tax	316	162	1,008	515
Effective tax rate (%)	*29.2*	*17.8*	*50.9*	*33.8*
Profit after Tax	**765**	**748**	**971**	**1,009**
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	**765**	**748**	**1,086**	**1,009**
YoY gr. (%)	*(5.0)*	*(26.9)*	*(31.8)*	*(15.0)*
Margin (%)	*6.8*	*6.3*	*7.2*	*6.5*
Extra Ord. Income / (Exp)	-	-	(115)	-
Reported PAT	**765**	**748**	**971**	**1,009**
YoY gr. (%)	*(5.0)*	*(26.9)*	*(28.9)*	*(15.0)*
Margin (%)	*6.8*	*6.3*	*6.5*	*6.5*
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	**765**	**748**	**971**	**1,009**
Avg. Shares O/s (m)	118	118	118	118
EPS (Rs)	**6.5**	**6.4**	**9.2**	**8.6**

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY21	FY22	FY23E	FY24E
Per Share(Rs)				
EPS	32.8	32.7	33.2	39.6
CEPS	49.3	48.9	50.4	57.2
BVPS	176.6	206.8	235.0	269.6
FCF	63.0	35.6	72.6	58.6
DPS	3.7	5.0	5.0	5.0
Return Ratio(%)				
RoCE	18.7	18.5	16.4	18.0
ROIC	17.7	19.4	17.3	22.1
RoE	20.4	17.1	15.0	15.7
Balance Sheet				
Net Debt : Equity (x)	0.2	0.0	(0.1)	(0.3)
Net Working Capital (Days)	(2)	16	4	4
Valuation(x)				
PER	13.3	13.4	13.2	11.0
P/B	2.5	2.1	1.9	1.6
P/CEPS	8.9	8.9	8.7	7.6
EV/EBITDA	7.0	6.5	6.2	4.9
EV/Sales	1.3	1.0	0.8	0.7
Dividend Yield (%)	0.9	1.1	1.1	1.1

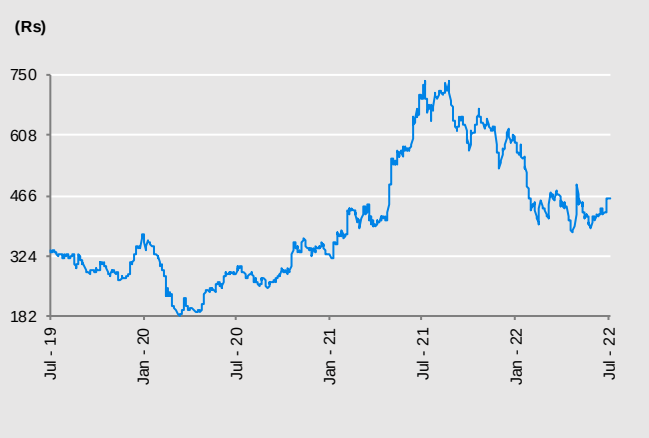
Source: Company Data, PL Research

Key Operating Metrics

Y/e Mar	FY21	FY22	FY23E	FY24E
Volume (mn te)-Cement	10	11	11	11
Cement Realisation (Rs/te)	4,434	4,766	5,154	4,996
EBITDA (Rs/ te)	799	758	700	750
RM cost (Rs/ te)	1,306	1,437	1,486	1,482
Power, Oil & Fuel (Rs/ te)	940	1,210	1,499	1,243
Freight Charges (Rs/ te)	926	1,036	1,089	1,101

Source: Company Data, PL Research

Price Chart



Recommendation History

No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	08-Jul-22	Accumulate	570	434
2	20-May-22	Accumulate	570	422
3	08-Apr-22	Hold	560	453
4	04-Feb-22	Hold	663	559
5	10-Jan-22	Hold	665	602
6	16-Dec-21	Hold	670	628
7	02-Nov-21	Hold	670	615
8	06-Oct-21	Hold	690	653
9	06-Sep-21	Hold	690	708
10	02-Aug-21	Hold	690	692

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	ACC	Reduce	2,250	2,160
2	Ambuja Cement	Hold	385	371
3	Coal India	Accumulate	220	190
4	Dalmia Bharat	Accumulate	1,755	1,453
5	Heidelberg Cement India	Reduce	183	181
6	Hindalco Industries	Accumulate	545	358
7	Hindustan Zinc	Reduce	283	263
8	Jindal Steel & Power	Reduce	360	346
9	JK Lakshmi Cement	Accumulate	570	434
10	JSW Steel	Reduce	560	582
11	NMDC	Reduce	120	109
12	Shree Cement	Hold	23,150	20,015
13	Steel Authority of India	Reduce	55	72
14	Tata Steel	Reduce	975	950
15	The Ramco Cements	Hold	650	654
16	Ultratech Cement	Accumulate	7,180	6,459

PL's Recommendation Nomenclature (Absolute Performance)

Buy	:	> 15%
Accumulate	:	5% to 15%
Hold	:	+5% to -5%
Reduce	:	-5% to -15%
Sell	:	< -15%
Not Rated (NR)	:	No specific call on the stock
Under Review (UR)	:	Rating likely to change shortly

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