

J K Lakshmi Cement

Estimate change

TP change

Rating change



Bloomberg	JKLC IN
Equity Shares (m)	118
M.Cap.(INRb)/(USDb)	73.7 / 0.9
52-Week Range (INR)	684 / 369
1, 6, 12 Rel. Per (%)	5/41/-2
12M Avg Val (INR M)	208

Financial Snapshot (INR b)

Y/E Mar	FY23	FY24E	FY25E
Sales	61.0	61.4	63.9
EBITDA	7.7	8.7	9.4
Adj. PAT	3.7	4.7	5.3
EBITDA Margin (%)	12.6	14.1	14.7
Cons. Adj. EPS (INR)	31.8	40.3	45.4
EPS Gr. (%)	-2.2	26.6	12.7
BV/Sh. (INR)	235	268	306

Ratios

Net D:E	-0.1	-0.2	-0.4
RoE (%)	14.4	16.0	15.8
RoCE (%)	12.4	14.3	14.6
Payout (%)	17.3	17.4	15.4

Valuations

P/E (x)	19.7	15.6	13.8
P/BV (x)	2.7	2.3	2.0
EV/EBITDA(x)	7.9	6.5	5.4
EV/ton (USD)	54	50	45
Div. Yield (%)	0.9	1.1	1.1
FCF Yield (%)	12.5	8.1	9.4

Shareholding pattern (%)

As On	Sep-22	Jun-22	Sep-21
Promoter	46.3	46.3	46.0
DII	24.7	25.2	26.2
FII	12.8	12.1	12.5
Others	16.2	16.4	15.4

FII Includes depository receipts

CMP: INR627
TP: INR730 (+16%)
Buy

Higher realization helps beat our estimates

Realization trend in 1HFY23 better v/s its peers

- Higher realization (5% higher than our estimate) helped JKLC beat our earnings estimates in 2QFY23. Standalone EBITDA/OPM stood at INR1.4b/10.6% (est. INR1.1b/8.3%). Profit stood at INR590m (est. INR380m).
- Standalone Cement realizations (excluding non-Cement revenue) were flat QoQ, but the same declined by 2% QoQ based on consolidated financials. The management said that better realizations vis-à-vis its peers in 1HFY23 is due to a better geographical-mix (higher sales in better profitability areas – 55% from 52-53% earlier), greater trades sales, and a better product mix.
- We raise our FY23/FY24 EBITDA/OPS estimate by 4%/6% each, given its improved performance. Valuations remain inexpensive at 6.5x/5.4x FY24E/FY25 EV/EBITDA. We maintain our **Buy** rating.

Sales volume below our estimate; EBITDA/t declined by 14% YoY

- Standalone revenue/EBITDA/PAT stood at INR13b/INR1.4b/INR590m (+16%/-15%/-23% YoY and -6%/+21%/+55% v/s our estimate). Sales volumes (Cement and clinker) were flat YoY at 2.31mt (down 17% QoQ). Cement realization improved by 12% YoY (flat QoQ).
- OPEX/t grew 22% YoY and 5% QoQ as variable cost/freight cost/other expenses rose 37%/11%/3% YoY. Employee cost declined by 1% YoY and 10% QoQ to INR833m in 2QFY23. OPM fell 3.9pp YoY to 10.6%. EBITDA/t declined by 14% YoY to INR601.
- Revenue grew 21% YoY in 1HFY23, led by a 19%/2% growth in realization/sales volume. Due to cost pressures, EBITDA declined by 6% YoY to INR3.6b. OPM dropped by 3.7pp YoY to 12.5%. EBITDA/t fell 8% YoY to INR698. Profit was down 18% YoY to INR1.6b.

Highlights from the management commentary

- The key focus area is to increase revenue primarily through improvement in realization, driven by optimization in the geo-mix; increase in premium products/trade sales; improvement in brand visibility; and better pricing.
- JKLC benefitted from low-cost fuel inventory in 2QFY23. Fuel consumption cost/t is expected to increase by 8% QoQ to INR13,000 in 3QFY23.
- The expansion at UCWL (1.5mtpa/2.5mtpa clinker/Cement) is estimated to be completed by Mar'24. Around 75% of civil work has been completed.

Inexpensive valuations; maintain our Buy rating

- JKLC aims to achieve a Cement capacity of 30mtpa by FY30. The company has been awarded two limestone blocks – one in central Rajasthan and the other in coastal Gujarat. The management believes that each of these mines can support at least 5mtpa of capacity for 40-50 years.
- The stock trades at 6.5x/5.4x FY24E/FY25E EV/EBITDA (v/s its 10-year average one-year forward EV/EBITDA of 9x). We value JKLC at 7.5x Sep'24 EV/EBITDA (v/s Mar'24 earlier) to arrive at our TP of INR730 (from INR640 earlier). We maintain our **Buy** rating.

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Investors are advised to refer through important disclosures made at the last page of the Research Report.

Motilal Oswal research is available on www.motilaloswal.com/Institutional-Equities, Bloomberg, Thomson Reuters, Factset and S&P Capital.

Standalone quarterly performance

(INR m)

Y/E March	FY22				FY23				FY22	FY23E	FY23E	Var.
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE			2QE	(%)
Sales Volumes (mt)	2.66	2.32	2.46	3.14	2.79	2.31	2.58	3.23	10.58	10.91	2.56	(10)
Change (YoY %)	40	(3)	(9)	8	5	(0)	5	3	7	3	11	
Net Sales	12,315	11,182	11,934	14,976	15,510	13,027	14,469	17,984	50,408	60,989	13,813	(6)
Change (YoY %)	49	7	0	13	26	16	21	20	15	21	24	
EBITDA	2,161	1,626	1,464	2,762	2,170	1,386	1,550	2,560	8,013	7,666	1,141	21
Margin (%)	17.5	14.5	12.3	18.4	14.0	10.6	10.7	14.2	15.9	12.6	8.3	
Depreciation	460	470	468	507	473	481	495	513	1,905	1,962	480	0
Interest	257	237	251	219	247	226	195	157	963	824	210	8
Other Income	169	163	164	176	74	214	50	21	673	359	80	168
PBT before EO expense	1,613	1,081	910	2,213	1,524	894	910	1,911	5,817	5,238	531	68
Extra-Ord. expense	0	0	0	234	0	0	0	0	234	0	0	
PBT	1,613	1,081	910	1,979	1,524	894	910	1,911	5,583	5,238	531	68
Tax	426	316	318	262	515	304	259	415	1,321	1,493	151	
Rate (%)	26.4	29.2	34.9	13.2	33.8	34.0	28.5	21.7	23.7	28.5	28.5	
Reported PAT	1,187	765	592	1,717	1,009	590	650	1,496	4,262	3,745	380	55
Adj. PAT	1,187	765	748	1,130	1,009	590	650	1,496	3,831	3,745	380	55
Change (YoY %)	167.2	(5.0)	(26.9)	(28.3)	(15.0)	(23.0)	(13.1)	32.4	(0.5)	(2.2)	(50.4)	
Per tonne analysis (INR)												
Net realization	4,633	4,828	4,853	4,763	5,567	5,651	5,601	5,560	4,766	5,591	5,389	5
RM Cost	1,091	1,201	1,100	1,270	1,373	1,532	1,500	1,621	1,171	1,510	1,413	8
Employee Expenses	312	365	353	229	331	361	329	285	309	323	336	8
Power, Oil, and Fuel	908	975	1,192	971	1,314	1,446	1,396	1,124	1,008	1,305	1,434	1
Freight and Handling Outward	934	975	1,011	1,018	1,120	1,082	1,090	1,118	986	1,104	1,100	(2)
Other Expenses	574	610	601	396	651	629	687	620	535	646	662	(5)
Total Expenses	3,820	4,126	4,258	3,885	4,788	5,050	5,002	4,768	4,008	4,888	4,944	2
EBITDA	813	702	595	879	779	601	600	791	758	703	445	35

Source: Company, MOFSL



Highlights from the management commentary

Key focus areas

- The management aims to improve revenue by: 1) optimization in the geo-mix, 2) higher share of premium products and trade sales, which will help improve realization, 3) better brand visibility, and 4) improvement in pricing. The management's focus is on boosting capacity utilization and cost efficiencies via a higher share of renewable energy, increase in alternative fuel, and use of technology and digitization across - logistics, plant operations, and customer connect.
- The share of blended Cement/trade sales stood ~67%/54-55% in 2QFY23. The aim is to increase trade/blended Cement sales to ~60%/70-75% over the next few quarters.
- JKLC is evaluating setting up a solar power plant (30-40MW capacity) in East India, which will boost cost savings. The share of renewable power currently stands at 35%.

Realization improves with a better geo-mix

- Optimization of geo-mix (increasing share of volumes in higher profitability areas – 55% from 52-53% earlier), higher trade sales, and better product mix led to an improvement in realization.
- Cement prices started to improve from the end of Aug'22 after the weak trends seen in Jul-Aug'22. Cement prices in the West were better v/s that in North India. JKLC has been able to reduce price gap between the trade and non-trade segment in 1HFY23.

- The price gap per tonne between trade and non-trade Cement stood at INR200/INR400/INR1,200-1,400 in West/East/North India. Prices are expected to improve in coming months as demand improves.

Operational highlights

- Standalone sales volumes stood at 2.31mt (including 0.07mt of Clinker). UCWL's sales volumes stood at 0.44mt. Consolidated sales volumes (after eliminating inter-company sales) stood at 2.53mt (including 0.07mt of Clinker).
- Non-Cement revenue stood at INR1.16b v/s INR550m/INR1.18b in 2QFY22/1QFY23. RMC revenue stood at INR520m v/s INR370m/INR550m in 2QFY22/1QFY23.
- Average fuel cost/t stood at INR12,000 v/s INR11,700 in 1QFY23. The management expects this to increase to INR13,000 in 3QFY23. Its fuel mix in 2QFY23 was 49%/39% petcoke/coal v/s 41%/46% in 1QFY23.
- The share of Blended Cement stood at 67% in 2QFY23 and the trade mix was 54-55%. Lead distance stood at 395km v/s 393km in 1QFY23.
- Sales of premium products increased by 1.5pp QoQ to 21% of trade sales.
- Volumes from a tolling grinding unit in Uttar Pradesh (Central India) stood ~70kt in 2QFY23. It is looking to increase this to 65-70kt per month by Mar'23.

Capacity expansion plans

- Capacity expansion (1.5mtpa/2.5mtpa Clinker/ grinding capacity) at UCWL is progressing well and is likely to be completed by Mar'24. Clinker/grinding capacity is expected to get commissioned in 3Q/4QFY24. So far, 75% of the civil work has been completed and an order has been placed for plant and machinery.

Debt

- Standalone gross/net debt stood at INR8.9b/INR2.3b in Sept'22 v/s INR9.6b/INR760m in Mar'22. Consolidated gross/net debt stood at INR18.4b/INR11.4b in Sept'22 v/s INR18.6b/INR6.5b in Mar'22.

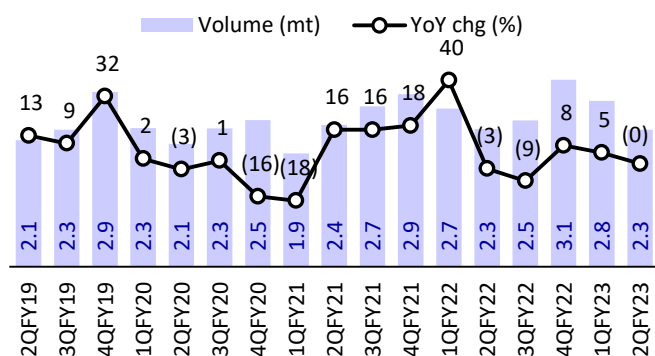
Exhibit 1: Revisions to our estimates

(INR m)	Revised estimate		Old estimate		Change (%)	
	FY23	FY24	FY23	FY24	FY23E	FY24E
Net Sales	60,989	61,364	61,985	62,193	(1.6)	(1.3)
EBITDA	7,666	8,669	7,366	8,302	4.1	4.4
Net Profit	3,745	4,742	3,531	4,467	6.1	6.1
EPS (INR)	31.8	40.3	30.0	38.0	6.1	6.1

Source: MOFSL Estimates

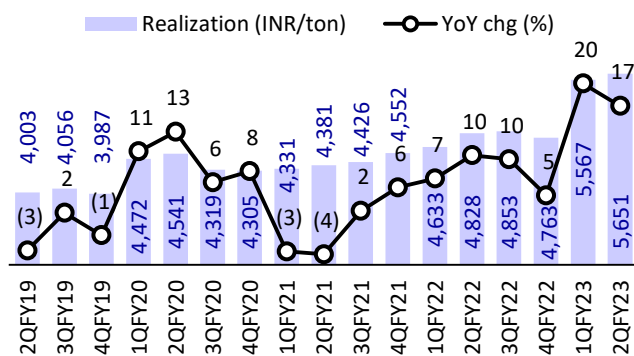
Story in charts

Exhibit 2: Sales volumes flat YoY, but fell 17% QoQ in 2QFY23



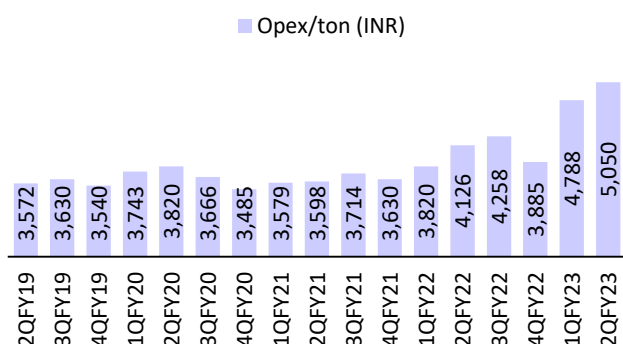
Source: Company, MOFSL

Exhibit 3: Blended realization up 17% YoY and ~2% QoQ in 2QFY23



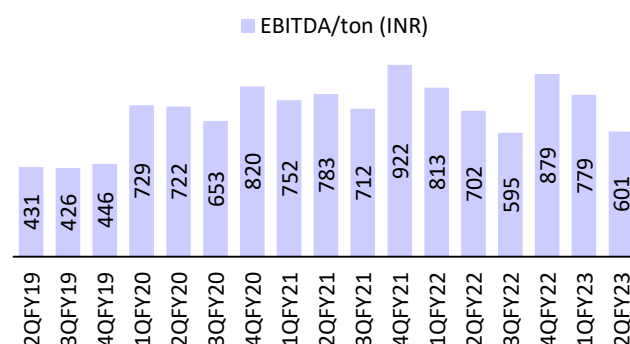
Source: Company, MOFSL

Exhibit 4: OPEX/t rises 22% YoY and 5.5% QoQ in 2QFY23



Source: Company, MOFSL

Exhibit 5: EBITDA/t fell 14% YoY and 23% QoQ in 2QFY23



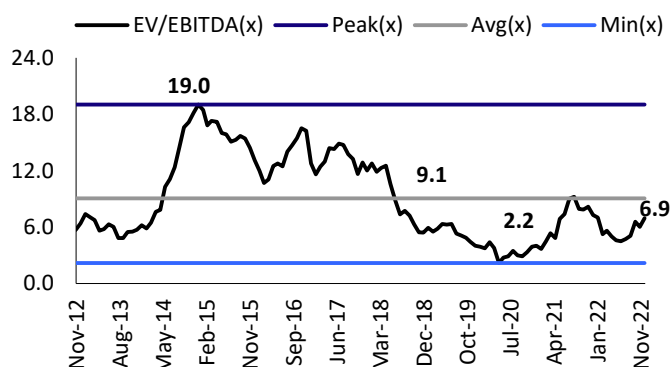
Source: Company, MOFSL

Exhibit 6: Key performance indicators – per tonne analysis

INR/t	2QFY23	2QFY22	YoY (%)	1QFY23	QoQ (%)
Net realization	5,651	4,828	17.0	5,567	1.5
RM Cost	1,532	1,201	27.5	1,373	11.6
Employee Expenses	361	365	(1.0)	331	9.2
Power, Oil, and Fuel	1,446	975	48.3	1,314	10.1
Freight and Handling Outward	1,082	975	10.9	1,120	(3.4)
Other Expenses	629	610	3.2	651	(3.3)
Total Expenses	5,050	4,126	22.4	4,788	5.5
EBITDA	601	702	(14.3)	779	(22.8)

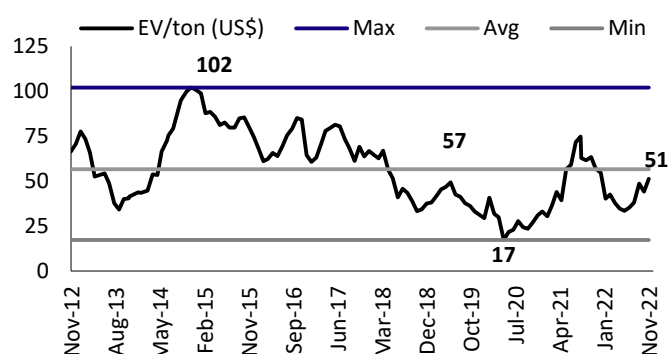
Source: Company, MOFSL

Exhibit 7: One-year forward EV/EBITDA ratio chart



Source: Company, MOFSL

Exhibit 8: One-year forward EV/t chart



Source: Company, MOFSL

Standalone financials and valuations

Income Statement							(INR m)	
Y/E March	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Net Sales	34,122	38,823	40,435	43,847	50,408	60,989	61,364	63,933
Change (%)	17.2	13.8	4.2	8.4	15.0	21.0	0.6	4.2
EBITDA	4,114	4,150	6,724	7,898	8,013	7,666	8,669	9,378
Margin (%)	12.1	10.7	16.6	18.0	15.9	12.6	14.1	14.7
Depreciation	1,793	1,794	1,884	1,942	1,905	1,962	2,075	2,150
EBIT	2,321	2,356	4,840	5,956	6,108	5,704	6,594	7,228
Int. and Finance Charges	1,975	1,874	1,644	1,425	963	824	629	472
Other Income – Rec.	681	563	501	745	673	359	375	387
PBT bef. EO Exp.	1,027	1,044	3,697	5,275	5,817	5,238	6,339	7,143
EO Expense/(Income)	32	0	302	309	234	0	0	0
PBT after EO Exp.	995	1,044	3,394	4,966	5,583	5,238	6,339	7,143
Current Tax	259	272	612	904	1,438	1,493	1,598	1,800
Deferred Tax	-104	-23	430	424	-117	0	0	0
Tax Rate (%)	15.6	23.8	30.7	26.7	23.7	28.5	25.2	25.2
Reported PAT	840	796	2,352	3,638	4,262	3,745	4,742	5,343
PAT Adj. for EO items	871	796	2,654	3,848	3,831	3,745	4,742	5,343
Change (%)	6.4	-8.7	233.6	45.0	-0.5	-2.2	26.6	12.7
Margin (%)	2.6	2.0	6.6	8.8	7.6	6.1	7.7	8.4

Balance Sheet							(INR m)	
Y/E March	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Equity Share Capital	589	589	589	589	589	589	589	589
Total Reserves	13,944	14,638	16,538	20,201	23,935	27,033	30,951	35,470
Net Worth	14,532	15,227	17,127	20,789	24,524	27,622	31,539	36,059
Deferred Liabilities	(200)	(220)	205	641	943	943	943	943
Total Loans	20,204	16,131	14,667	11,247	9,629	8,242	5,742	4,742
Capital Employed	34,537	31,138	31,999	32,678	35,096	36,807	38,225	41,744
Gross Block	33,076	33,292	36,688	37,148	39,628	40,750	42,250	43,750
Less: Accum. Deprn.	5,127	6,907	8,656	10,533	12,392	14,354	16,429	18,579
Net Fixed Assets	27,949	26,385	28,032	26,615	27,236	26,395	25,820	25,170
Capital WIP	2,261	4,111	1,519	2,275	1,121	1,500	1,500	1,500
Total Investments	7,947	7,202	7,847	7,511	9,385	13,012	13,012	13,012
Curr. Assets, Loans, and Adv.	6,531	6,637	7,704	9,933	10,383	13,389	15,504	20,441
Inventory	3,170	3,117	4,128	3,155	4,912	5,013	5,044	5,255
Account Receivables	969	1,066	882	537	345	417	420	437
Cash and Bank Balance	116	180	314	3,591	3,388	6,134	8,125	12,737
Loans and Advances	2,275	2,274	2,379	2,650	1,738	1,825	1,916	2,012
Curr. Liabilities and Prov.	10,152	13,196	13,500	13,937	13,294	17,754	17,876	18,644
Account Payables	9,941	13,028	13,331	13,750	13,031	17,545	17,653	18,392
Provisions	210	168	169	186	263	209	224	252
Net Current Assets	(3,621)	(6,560)	(5,796)	(4,004)	(2,911)	(4,365)	(2,372)	1,797
Appl. of Funds	34,537	31,138	31,999	32,678	35,096	36,807	38,225	41,744

Source: Company, MOFSL estimates

Standalone financials and valuations

Ratios								
Y/E March	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Basic (INR)								
EPS	7.4	6.8	22.6	32.7	32.5	31.8	40.3	45.4
Cash EPS	22.6	22.0	38.6	49.2	48.7	48.5	57.9	63.7
BV/Share	123.5	129.4	145.5	176.6	208.4	234.7	268.0	306.4
DPS	0.7	0.7	3.1	3.8	5.0	5.5	7.0	7.0
Payout (%)	11.2	13.4	19.6	12.1	13.8	17.3	17.4	15.4
Valuation (x)								
P/E ratio		92.7	27.8	19.2	19.3	19.7	15.6	13.8
Cash P/E ratio		28.5	16.3	12.7	12.9	12.9	10.8	9.8
P/BV ratio		4.8	4.3	3.5	3.0	2.7	2.3	2.0
EV/Sales ratio		1.9	1.8	1.5	1.3	1.0	0.9	0.8
EV/EBITDA ratio		17.8	11.1	8.5	8.2	7.9	6.5	5.4
EV/t (USD)		72	68	61	57	54	50	45
Dividend Yield (%)		0.1	0.5	0.6	0.8	0.9	1.1	1.1
Return Ratios (%)								
RoE	6.1	5.3	16.4	20.3	16.9	14.4	16.0	15.8
RoCE	7.2	6.7	11.7	15.4	15.6	12.4	14.3	14.6
RoIC	6.2	6.1	12.1	16.7	18.1	16.6	22.5	25.7
Working Capital Ratios								
Asset Turnover (x)	1.0	1.2	1.3	1.3	1.4	1.7	1.6	1.5
Inventory (Days)	33.9	29.3	37.3	26.3	35.6	30.0	30.0	30.0
Debtor (Days)	10	10	8	4	2	2	2	2
Creditor (Days)	106	122	120	114	94	105	105	105
Leverage Ratio (x)								
Current Ratio	0.6	0.5	0.6	0.7	0.8	0.8	0.9	1.1
Interest Coverage Ratio	1.2	1.3	2.9	4.2	6.3	6.9	10.5	15
Debt/Equity ratio	1.4	1.1	0.9	0.5	0.4	0.3	0.2	0.1

Cash Flow Statement								(INR m)
Y/E March	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
OP/(Loss) before Tax	1,027	1,044	3,697	5,275	5,817	5,238	6,339	7,143
Depreciation	1,793	1,794	1,884	1,942	1,905	1,962	2,075	2,150
Interest and Finance Charges	1,955	1,849	1,574	1,206	735	824	629	472
Direct Taxes Paid	(386)	(181)	(758)	(872)	(982)	(1,493)	(1,598)	(1,800)
(Inc.)/Dec. in WC	591	2,698	(359)	1,735	(1,533)	4,199	(2)	443
CF from Operations	4,980	7,204	6,037	9,286	5,942	10,731	7,444	8,408
Others	(415)	(310)	(625)	(665)	(543)	-	-	-
CF from Operations incl. EO	4,565	6,895	5,413	8,622	5,399	10,731	7,444	8,408
(Inc.)/Dec. in FA	(1,369)	(1,888)	(865)	(1,208)	(1,129)	(1,500)	(1,500)	(1,500)
Free Cash Flow	3,196	5,006	4,547	7,414	4,271	9,231	5,944	6,908
(Pur.)/Sale of Investments	563	1,065	(381)	673	(1,636)	(3,627)	-	-
Others	(83)	29	(340)	393	1,583	-	-	-
CF from Investments	(888)	(794)	(1,586)	(142)	(1,182)	(5,127)	(1,500)	(1,500)
Issue of Shares	-	-	-	-	-	-	-	-
Inc./(Dec.) in Debt	(1,502)	(3,934)	(1,498)	(3,457)	112	(1,387)	(2,500)	(1,000)
Interest Paid	(2,046)	(1,991)	(1,740)	(1,445)	(955)	(824)	(629)	(472)
Dividend Paid	(103)	(111)	(455)	(5)	(443)	(647)	(824)	(824)
Others	-	-	-	-	-	-	-	-
CF from Fin. Activity	(3,650)	(6,036)	(3,693)	(4,907)	(1,286)	(2,859)	(3,953)	(2,296)
Inc./Dec. in Cash	26	64	134	3,573	2,932	2,746	1,991	4,612
Opening Balance	90	116	180	17	457	3,389	6,134	8,125
Closing Balance	116	180	314	3,591	3,389	6,134	8,125	12,737

Source: Company, MOFSL estimates

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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