JK Lakshmi Cement (JKLAKS)

ICICI direct Research

CMP: ₹ 662 | Target: ₹ 780 (18%) | Target Period: 12 months | **BUY**

November 8, 2022

Better realisations partially offset cost pressure…

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

Q2FY23 Results: The results were better than estimates. Higher realisations helped the company to offset the cost partially.

- Revenues were up 16.5% YoY to ₹ 1,302.7 crore (vs. I-direct estimate: ₹ 1,352 crore). The topline growth was driven by higher realisations that increased 17.3% YoY to ₹ 5,651/tonne (up 1.5% QoQ)
- EBITDA margins declined 390 bps YoY and 335 bps QoQ to 10.6%. However, it was better than estimates (ie. 8.2%) due to higher realisations
- PAT was down 23% YoY, 41.6% QoQ to ₹ 59 crore. It was still better than our estimated PAT of ₹ 33.9 crore

What should investors do? While growth remain a concern till the time new capacity gets commissioned, cooling down of cost pressure along with increase in renewable energy share remain key positives for margin expansion.

- Given its comfortable valuations (ie. EV/t of $69/t), we now upgrade the stock from HOLD to **BUY** despite its sharp rally

Target Price and Valuation: We value the company at ₹ 780 i.e.8.5x FY24E EV/EBITDA, EV/tonne of $80/t)

Key triggers for future price performance:

- With capacity annual utilisation of ~90%, volume growth to remain subdued till FY24E as the new capacity will come on stream by Q4FY24E
- The recent commissioning of 10 MW WHRS (total capacity now 33 MW) along with increased share of alternate fuels (14%) to help contain the cost pressure to some extent in the wake of higher fuel prices
- B/s 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 a cost efficient player in central India having a strong b/s. It has a good dividend yield of over 5%
- BUY with a target price of ₹ 220/share

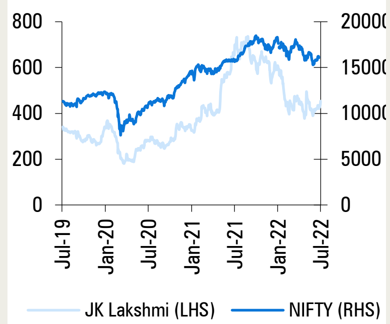
Particulars

Particular	Amount
Mcap	₹ 7792 crore
Debt (FY22)	₹ 1207 crore
Cash & Invest (FY22)	₹ 886 crore
EV	₹ 8113 crore
52 week H/L	₹816 / ₹ 366
Equity cap	₹ 59 crore
Face value	₹ 5

Shareholding pattern

(in %)	Dec-21	Mar-22	Jun-22	Sep-22
Promoter	46.01	46.31	46.31	46.31
FII	12.97	12.29	12.14	12.84
DII	24.96	25.87	25.21	24.66
Others	16.06	15.53	16.34	16.19

Price Chart



Key risks

- Any delay in commissioning of new capacities
- Volatility in prices of key inputs like coal/petcoke

Research Analyst

Rashes Shah
Rashes.shah@icicisecurities.com

Debotro Sinha
Debotro.sinha@icicisecurities.com

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	5851	6333	12.1
EBITDA	415	672	790	801	24.5	831	1098	17.1
EBITDA (%)	10.7	16.6	18.0	15.9		14.2	17.3	
PAT	80	235	364	426	75.0	394	545	13.0
EPS (₹)	6.8	22.6	33.5	38.2		33.5	46.3	
EV/EBITDA	21.7	13.0	10.3	10.1		9.8	7.2	
EV/Tonne ($)	120	94	87	87		88	69	
RoNW	5.2	15.5	19.0	18.3		15.7	18.2	
RoCE	9.3	17.1	21.1	18.1		17.7	22.3	

Source: Company, ICICI Direct Research

Key performance highlights

- Sales volumes were down marginally 0.6% YoY to 2.31 MT, down 7.3% on a QoQ basis. The plant operated at ~79% utilisation
- Realisations were up 17.3%YoY to ₹ 5,651/tonne mainly to offset against the sever cost pressure. The price gap range of ₹ 12-14% between large and mid-cement players like JKLC have now neutralised
- Cost of production was up 22.6% YoY to ₹ 5,050/tonne, contributed mainly by power & fuel (up 48% YoY, 10% QoQ) and freight expenses (up 11% YoY)
- EBITDA margins declined 390 bps YoY, 335 bps QoQ to 10.6%. However, it was better than estimates (ie. 8.2%) due to higher realisations. EBITDA/tonne came in at ₹ 601/t (down 14.2% YoY, 22.8% QoQ). It was better than expected EBITDA/t of ₹ 441/tonne
- PAT was down 23% YoY, 41.6% QoQ to ₹ 59 crore. It was still better than our estimated PAT of ₹ 33.9 crore
- The company's subsidiary Udaipur Cement Works is expanding its cement capacity by 2.5 MT, which is likely to be commissioned in March 2024E. On completion of this expansion, consolidated capacity of JKLC and UCWL will improve to 16.4 MT

Key conference call highlights

Current performance: Better product mix and segment mix has driven realisation and topline. The premium product share was at 21% vs. 19.5% in Q1FY23. The lead distance was at 395 km.

Non cement revenue ₹ 116 crore vs. ₹ 92 crore last year. RMC revenue ₹ 52 crore. Blended cement -67% 33% is OPC. The blending ratio was at 67% while trade mix was at 54-55%. The share of trade mix is expected to go to 60%, going forward.

Margins were better than peers during the quarter due to benefit of low cost fuel inventory. However, going forward, the fuel cost would increase by 9% in Q3FY23. i.e. from ₹ 12,000/tonne to ₹ 13,000/t.

Capex at company: At JKLC, no expansion currently. 10 MW WHRS was commissioned in Q4FY22. Total WHRS capacity is now at 33 MW. In terms of cost saving measures, the company is planning to ramp-up the green power share from current 35% to 37% and also increase usage of alternate fuels from 3-3.5% to 10% over 9-10 months

Capex at subsidiary - UCWL completed de-bottlenecking is now undergoing ₹ 1,650 crore expansion. To add 2.5 MT cement and 1.5 MT 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 four years of moratorium.

On merger of JKLC & UCWL: Currently, there are no plans of merger between UCWL and JKLC due to difference in the tax rates (UCWL @ 25% & JKLC @ 34%)

Exhibit 1: Variance analysis

Particulars	Q2FY23	Q2FY23E	Q1FY22	YoY (%)	Q4FY22	QoQ (%)	Comments
Net Sales	1302.7	1351.9	1118.2	16.5	1,551.0	-16.0	Growth for the quarter was mainly led by higher realisations
EBITDA	138.6	111.0	162.6	-14.7	217.0	-36.1	
EBITDA Margin (%)	10.6	8.2	14.5	-390 bps	14.0	-335 bps	
PAT	59.0	33.9	76.6	-23.0	100.9	-41.6	
Key Metrics							
Volume (MT)	2.31	2.52	2.32	-0.6	2.79	-17.3	
Realisation (₹)	5,651	5,374	4,820	17.3	5,567	1.5	
EBITDA per Tonne (₹)	601	441	701	-14.2	779	-22.8	
Pet tonne cost	**Q2FY23**	**Q2FY23E**	**Q1FY22**	**YoY (%)**	**Q4FY22**	**QoQ (%)**	
Raw Material Expenses	1,532	1,220	1,199	27.7	1,373	11.6	
Employee Expenses	361	350	364	-0.8	331	9.2	
Power and fuel	1,446	1,563	973	48.6	1,314	10.1	Despite spike in the fuel prices, P&F cost of JK Lakshmi was better vs. peers on per tonne basis due to usage of low cost fuel inventory
Freight	1,082	1,150	974	11.1	1,120	-3.4	
Others	629	650	609	3.4	651	-3.3	
Total	5,050	4,933	4,119	22.6	4,788	5.5	
EBITDA	601	441	701	-14.2	779	-22.8	

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

	FY23E			FY24E			
(₹ Crore)	Old	New	% Change	Old	New	% Change	Comments
Revenue	5,851.2	5,851.2	0.0	6,599.4	6,332.7	-4.0	
EBITDA	830.6	830.6	0.0	1,144.4	1,098.1	-4.0	
EBITDA Margin (%)	14.2	14.2	0 bps	17.3	17.3	0 bps	
PAT	393.9	393.9	0.0	574.7	544.6	-5.2	
EPS (₹)	33.5	33.5	0.0	48.8	46.3	-5.2	

Source: Company, ICICI Direct Research

Key triggers for future price performance

To add 2.5 MT cement capacity through its subsidiary in Rajasthan: With capacity utilisation reaching 90%, the company will now be adding cement capacity of 2.5 MT (1.5 MT clinker) at its existing plant in Udaipur unit (through subsidiary company Udaipur Cement Works) with total capex of ₹ 1,650 crore. The same is likely to get commissioned by end of Q4FY24E. Ramp up of capacities in Durg in the past four years has led to co generating healthy annual OCF. Further, with liquidity buffer of ₹ 337 crore, we believe, JKLC is in a better position to fund this new expansion.

Focus on cost reductions to drive further efficiency: Being predominantly north (8.2 MT) and central (3.5 MT) player, the company has got a structural advantage of balanced environment in these two high growing regions. Further, self-sufficiency in power, through captive power plant (CPP) of 54 MW, waste heat recovery (WHR) plant of 33 MW and solar power plant of 6 MW has helped the company to reduce reliance on costly grid power. In the eastern region, the company has 7 MW WHR plant and has recently commissioned CPP of 20 MW to become self-sufficient. To reduce freight cost, it has added 0.8 MT 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: While growth remains a concern till the time new capacity gets commissioned, cooling down of cost pressure along with increase in renewable energy share remain key positives for margin expansion. Given its comfortable valuations (i.e. EV/t of $69/t), we now upgrade the stock from HOLD to BUY despite its sharp rally. We value the company at ₹ 780 i.e.8.5x FY24E EV/EBITDA, EV/tonne of $80/t).

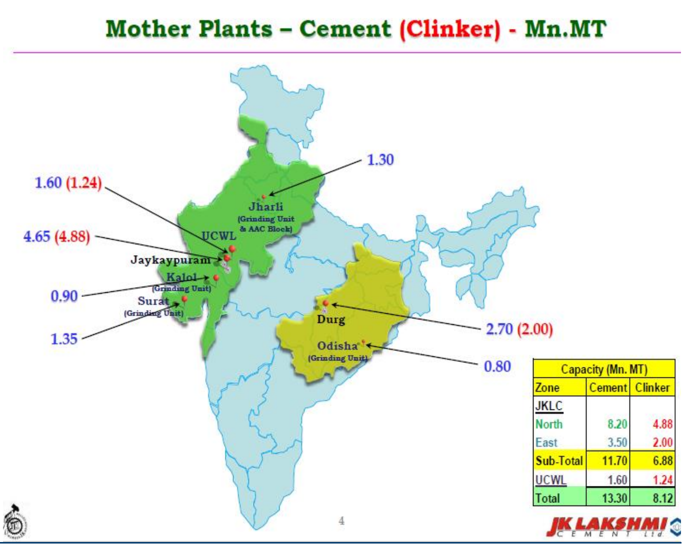
Financial story in charts

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**

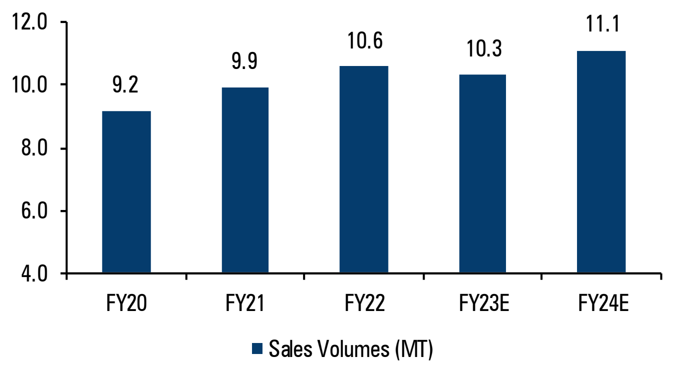
Source: Company, ICICI Direct Research

Exhibit 4: Location wise cement capacity



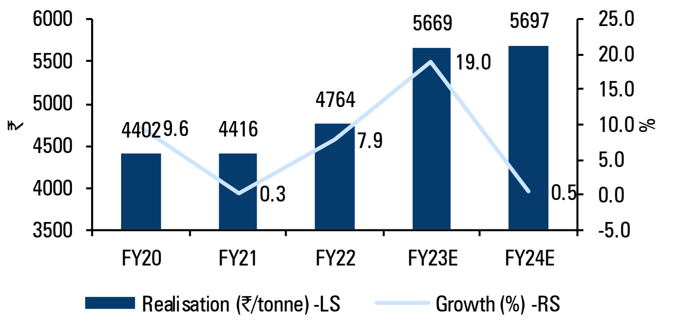
Source: Company, ICICI Direct Research

Exhibit 5: Volumes to grow at 2.5% CAGR over FY22-24E



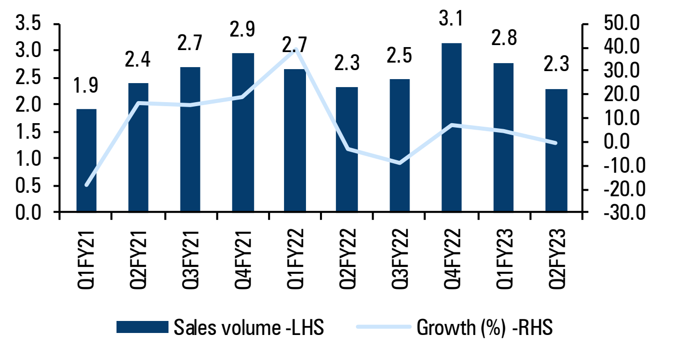
Source: Company, ICICI Direct Research

Exhibit 6: Realisations to improve gradually to offset cost pressure



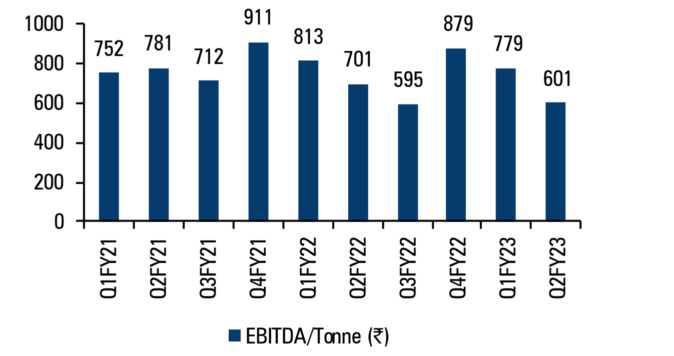
Source: Company, ICICI Direct Research

Exhibit 7: Volumes broadly remain flat during Q2FY23



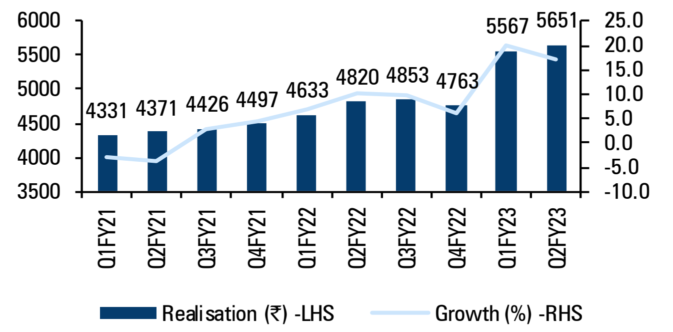
Source: Company, ICICI Direct Research

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



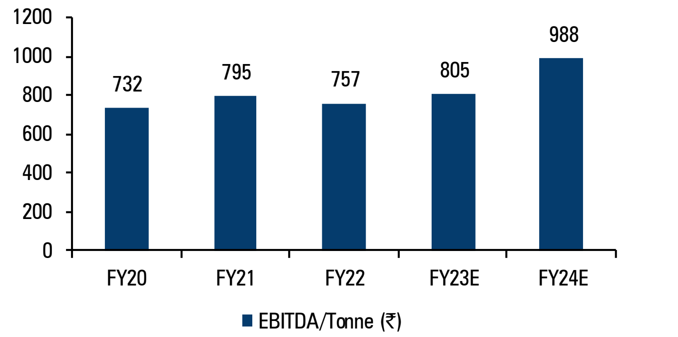
Source: Company, ICICI Direct Research

Exhibit 9: Realisations up 17.3% YoY



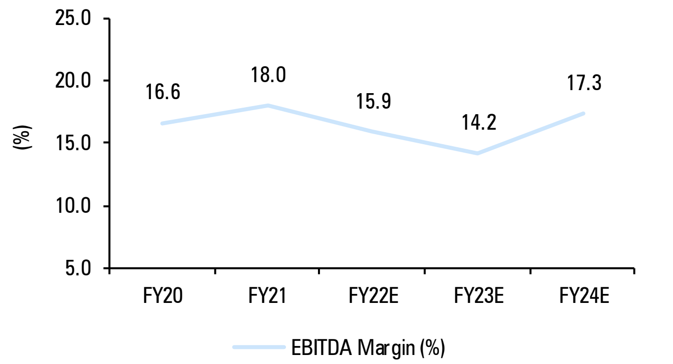
Source: Company, ICICI Direct Research

Exhibit 10: EBITDA/t trend



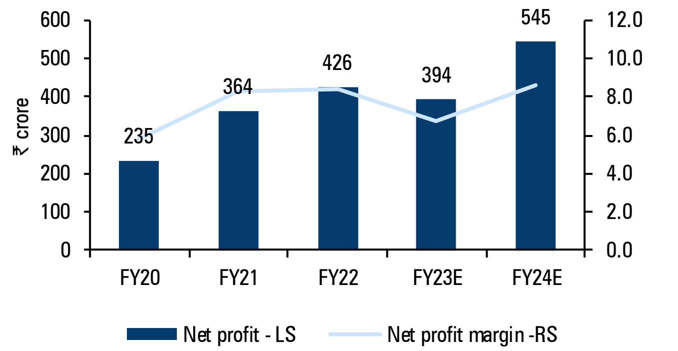
Source: Company, ICICI Direct Research

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**	**5,851.2**	**6,332.7**
Growth (%)	4.2	8.4	15.0	16.1	8.2
Raw material	952.4	1083.9	1238.3	1516.7	1645.0
Power & Fuel	843.9	779.8	1065.6	1373.2	1264.3
Employees	303.1	327.0	326.4	353.5	380.1
Freight	817.6	883.2	1042.8	1110.5	1222.7
Others	454.2	521.2	566.3	666.6	722.5
Total Expenses	3,371.1	3,595.0	4,239.5	5,020.6	5,234.6
EBITDA	**672.4**	**789.7**	**801.3**	**830.6**	**1,098.1**
Growth (%)	52.2	17.5	1.5	3.7	32.2
Depreciation	188.4	194.2	190.5	192.3	194.1
Interest	163.6	142.5	96.3	92.5	120.7
Other Income	49.3	74.6	67.3	54.8	52.0
Exceptional items	30.2	30.9	23.4	0.0	0.0
PBT	339.5	496.7	558.3	600.7	835.2
Total Tax	104.2	132.8	132.1	206.8	290.7
PAT	235.2	363.9	426.3	393.9	544.6
Adjusted PAT	**265.5**	**394.9**	**449.7**	**393.9**	**544.6**
Growth (%)	233.6	48.8	13.9	-12.4	38.2
Adjusted EPS (₹)	**22.6**	**33.5**	**38.2**	**33.5**	**46.3**

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	393.9	544.6
Add: Depreciation	188.4	194.2	190.5	192.3	194.1
(Inc)/dec in Current Assets	-80.8	131.8	-156.5	-38.7	-120.4
Inc/(dec) in CL and Prov.	93.4	60.6	-337.7	210.8	131.1
CF from operations	**436.2**	**750.6**	**122.6**	**758.3**	**749.5**
(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	-237.5	-443.9
CF from investing	**-157.1**	**-65.1**	**-264.9**	**-487.5**	**-423.9**
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	37.3	154.6
Opening Cash	18.0	29.3	359.1	337.2	374.4
Closing Cash	**31.1**	**357.3**	**337.2**	**374.4**	**529.0**

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	2,454.0	2,927.5
Total Shareholders func	1,708.7	2,078.9	2,452.4	2,512.8	2,986.4
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 liabili	181.3	185.9	124.2	124.2	124.2
Total Liabilities	**3,306.7**	**3,363.1**	**3,878.4**	**4,038.8**	**4,412.4**
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	470.7	605.0
Debtors	88.2	53.7	34.5	93.8	79.7
Loans and Advances	274.9	293.1	173.8	411.3	855.2
Non current Investment	383.1	403.5	421.3	421.3	421.3
Cash	29.3	359.1	337.2	374.4	529.0
Total Current Assets	1,188.3	1,424.7	1,458.0	1,771.5	2,490.4
Creditors	1,220.7	1,279.6	933.9	1,150.1	1,278.9
Provisions	16.9	18.6	26.7	21.3	23.7
Total Current Liabilities	1,237.6	1,298.3	960.6	1,171.4	1,302.5
Net Current Assets	-49.4	126.5	497.4	600.1	1,187.9
Application of Fund	**3,306.7**	**3,363.1**	**3,878.4**	**4,038.8**	**4,412.4**

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	33.5	46.3
Cash EPS	36.0	47.4	52.4	49.8	62.8
BV	145.2	176.6	208.4	213.5	253.7
DPS	0.0	3.8	5.0	4.0	5.0
Cash Per Share	2.5	30.5	28.6	31.8	44.9
Operating Ratios (%)					
EBITDA Margin	16.6	18.0	15.9	14.2	17.3
PAT Margin	5.8	8.3	8.5	6.7	8.6
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	15.7	18.2
RoCE	17.1	21.1	18.1	17.7	22.3
RoIC	17.9	24.7	21.2	21.1	27.7
Valuation Ratios (x)					
P/E	33.2	21.4	18.3	19.8	14.3
EV / EBITDA	13.0	10.3	10.1	9.9	7.2
EV / Net Sales	2.2	1.8	1.6	1.4	1.3
Market Cap / Sales	1.9	1.8	1.5	1.3	1.2
Price to Book Value	5.1	4.6	3.8	3.2	3.1
Solvency Ratios					
Debt/EBITDA	2.1	1.3	1.5	1.6	1.1
Debt / Equity	0.8	0.5	0.5	0.5	0.4
Current Ratio	0.7	0.8	1.1	1.2	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%

Pankaj Pandey | Head – Research | pankaj.pandey@icicisecurities.com

ICICI Direct Research Desk,
ICICI Securities Limited,
1st Floor, Akruti Trade Centre,
Road No 7, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com

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