Axis Annual Analysis 2023

AAA

JK Lakshmi Cement Ltd

AXIS SECURITIES

JK Lakshmi Cement Ltd

Cement

BUY

Target Price

710

Efficiency Initiatives and Capacity Expansion To Drive Growth.

Summary

- **Net-debt free company:** JK Lakshmi Cementreduced its net debt during the year. The company's net Debt/Equity turned negative in FY23 from 0.03x in FY22. It also became a net-debt free company in FY23
- **Improvement in blended realization**: The company reported revenue of Rs 6,133 Cr, up 21% YoY. Its blended realization also improved, which was supported by higher sales of premium and value-added products. Sales of value-added products increased 28% YoY to Rs 478 Cr, thereby gaining market share during the year.
- **Aim to increase total capacity to 30 mtpa by 2030:** The company aims to increase its total capacity to 30 mtpa by 2030 and increase its use of green power to 50% by 2025 and 80% by 2030 from the current 35%. The capacity expansion of 2.5 mntpa (grinding plant) and 1.5 mntpa (clinker plant) by subsidiary UCWL (Udaipur Cement Works Limited) is progressing well and is scheduled to be commissioned in Jun'24. The capital outlay for these projects is ~Rs 1,600 Cr.

Key Highlights

- **Encouraging growth in cement sales volume:** In FY23, JKLC reported a cement sales volume of 9.4 million tonnes per annum (mntpa), up 9% from FY22, with above-average demand from both trade and non-trade segments.
- **Contractionin EBITDA margins:** The company's EBITDA margins contracted by 430bps during the year due to increased input costs, particularly energy costs, which were up 41% YoY on a per tonne basis. However, several cost optimization initiatives undertaken by the company across its plants notably helped it to reduce fixed costs during the year.
- **Digitization efforts yielding results:** Rapid digitization across functions helped the company optimise its systems and processes and improve working capital management as well as its plant efficiency.
- **Brand building exercise continues:** The company's brand building has helped increase the revenue share of premium products while strengthening product positioning and market share in the company's key markets.

Key Competitive Strengths

a) One of the most efficient cost producers of cement in India;b) Robust sales and distribution network;c)Strengthening financial position; d)Experienced and competent management bandwidth, and e) Premium and value-added product gaining traction.

Strategies Implemented

During FY23, JKLCa)Steppedup efforts towards digitization of various functions across plants,b)Increased the use of green energy to reduce overall power cost, c) Enhanced geographical mix to increase realization, d) OptimizedProduct mix,and d) Implemented strategies to increase the sale of value-added Products. These initiatives helped the company record its highest-everrevenue in FY23.

Growth Drivers

a) Affordable Housing, b) Real Estate Growth, c) Focus on infrastructure development including roads, highways, metros, airports, and irrigation and water projects, d) Higher rural Income, and e) Rural Road development.

Key Focus Areas

a)Capacity expansion to become top five EBITDA/ton cement companies b) Improving operational efficiency at all levels through sustainable operations, c) Focusing on value-added and premium products, d) Efficient supply chain management, and e) Enhancing Product positioning and market share.

Outlook & Recommendation: The company is working on many levers such as optimizing geo-mix, higher production, increasing the sale of blended cement, increasing the proportion of trade sales, premium and value-added products, improving logistic efficiency, and using more renewable power to increase its EBITDA/tonne to four-digit number in the next 12 to 18 months. We expect JKLC to post healthy EBITDA/tonne growth of 14% CAGR over FY23-25E.The stock is currently trading at 8.5x and 6.5x FY24E and FY25E EV/EBITDA and EV/tonne of $68 and & $65 FY24E/FY25E. **We value JKLC at 7.5x FY25E EV/EBITDA and assign a BUY rating to the company with a TP of Rs 710/share, implying an upside of 12% from the CMP.**

Key Financials

Y/E Mar (RsCr)	FY23	FY24E	FY25E
Net Sales	6,071	6,443	7,094
EBITDA	704	868	1,077
Net Profit	331	431	547
EPS (Rs)	28	37	46
PER (x)	22	17	13
EV/EBITDA (x)	10.2	8.4	6.5
P/BV (x)	2.7	2.3	2.0
ROE (%)	13	15	16

Source: Company, Axis Research

(CMP as of 12th Aug, 2023)	
CMP (Rs)	632
Upside /Downside (%)	12%
High/Low (Rs)	897/451
Market cap (Cr)	7430
Avg. daily vol. (6m) Shrs.	1,57,544
No. of shares (Cr)	7.73

Shareholding (%)

	Dec-22	Mar-23	June-23
Promoter	46.3	46.3	46.3
FIIs	13.81	11.68	11.5
MFs / UTI	21.28	22.98	23.0
Banks / FIs	0.02	0.02	0.0
Others	18.58	19.03	19.2

Financial & Valuations

Y/E Mar (RsCr)	FY23	FY24E	FY25E
Net Sales	6,071	6,443	7,094
EBITDA	704	868	1,077
Net Profit	331	431	547
EPS (Rs)	28	37	46
PER (x)	22	17	13
EV/EBITDA (x)	10.2	8.4	6.5
P/BV (x)	2.7	2.3	2.0
ROE (%)	13	15	16

Change in Estimates (%)

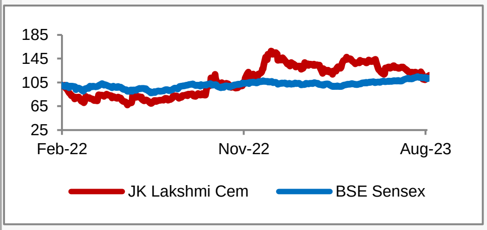
Y/E Mar	FY24E	FY25E
Sales	0	0
EBITDA	0	0
PAT	0	0

ESG disclosure Score**

Environmental Disclosure Score	41.5
Social Disclosure Score	39.4
Governance Disclosure Score	85.0
Total ESG Disclosure Score	55.0
Sector Average	46.0

Source: Bloomberg, Scale: 0.1-100
**Note: This score measures the amount of ESG data a company reports publicly and does not measure the company's performance on any data point. All scores are based on 2022 disclosures

Relative performance



Source: Ace Equity, Axis Securities

Uttam K Srimal
Research Analyst
Email: uttamkumar.srimal@axissecurities.in

ShikhaDoshi
Research Analyst
Email: shikha.doshi@axissecurities.in

Company Overview

JK Lakshmi Cement (JKLC) is a dominant player in the cement industry in its key markets of North and West India, generating 75% of its revenue in these two regions. The company also has a significant market presence in eastern India. The company established its first cement plant in 1982 with a capacity of 0.5 mntpa, which has now grown to a total capacity of 13.9 mntpa and a clinker capacity of 8.7 mntpa (on a consolidated basis). A strong network of over 7,000 cement dealers in the states of Madhya Pradesh, Chhattisgarh, Rajasthan, Gujarat, Uttar Pradesh, Punjab, Delhi, Haryana, Jammu & Kashmir, Maharashtra, Odisha and West Bengal enables the company to efficiently serve its customers across India. The company has 3 integrated and 4 grinding plants at strategic locations.

FY23-Performance Round-up

- **Highest-ever revenue of Rs 6,071 Cr:** The company reported its highest-ever revenue of Rs 6,133 Cr, up 21% over FY22. The impressive growth was achieved through superior demand recovery and price realization in FY23. The blended realization for the year increased to Rs 5,643/tonne as cement prices increased across all regions.
- **Robust volume growth:** The volume growthin FY23 increased by 9% YoY (FY23–9.4 mntpa vs.FY22–8.3mntpa) owing to superior demand prospects.The company reporteda lowerEBITDA margin of 11.6% in FY23 against 16% in FY22. This was owing to higher energy costs, which were up 41% YoY ona per-tonne basis.
- **Sale of Value-added Products increased**: The sale of value-added products increased by 28% to Rs 478 Cr in FY23.Along with this growth, the sale of the company's premiumcement contributed to the higher realization during the year.
- **Thetrade sale** was marginally down YoY (FY23:56:44 vs.FY22: 57:43).The company is also striving to increase the sale of blended cement for sustainable operation from the current 55% to 60% moving ahead.
- **Reduced Net-Debt/Equity to 0.02x:** The company continued its deleveraging exercise andreduced its net Debt/Equity to a negative level in FY23 against 0.02x in FY22. It's a net debt-free company.
- **Healthy capacity utilization:** The company's capacity utilization stood healthy at 80% during FY23 against 74% in FY22.
- **Dividend of Rs 5/share:**The company also declared a dividend of Rs 5/share (100%) for FY23.
- **Expansion Project by Udaipur Cement Works:** Udaipur Cement Works Ltd. (UCWL) – a key subsidiary company has undertaken a new expansion Project ("Project") at a capital outlay of 1,650 Cr. It will be usedfor settingup of an additional Clinker Unit having a capacity of 1.5 mntpa with a Waste Heat Recovery System at its existing plant in Udaipur (Rajasthan) and for settingup of additional cement Grinding Units having a capacity of 2.50 mntpa. With this, UCWL's total cement capacity will increase to 4.7 mntpa and enable it to strengthen its market presence. The new capacity is expected to get operational by Jun'24.

Exhibit 1: Trade Mix in FY22

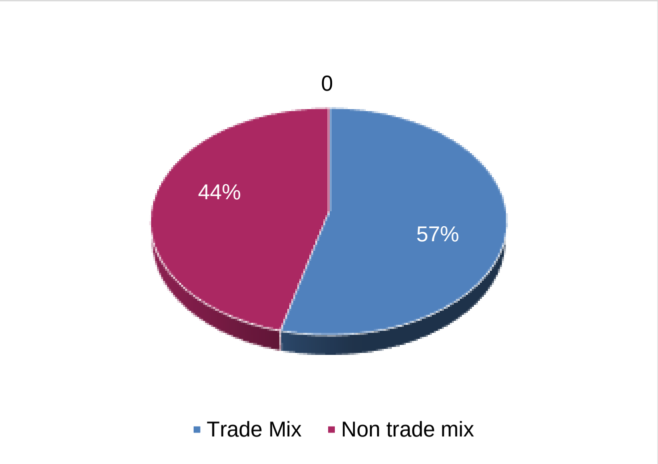
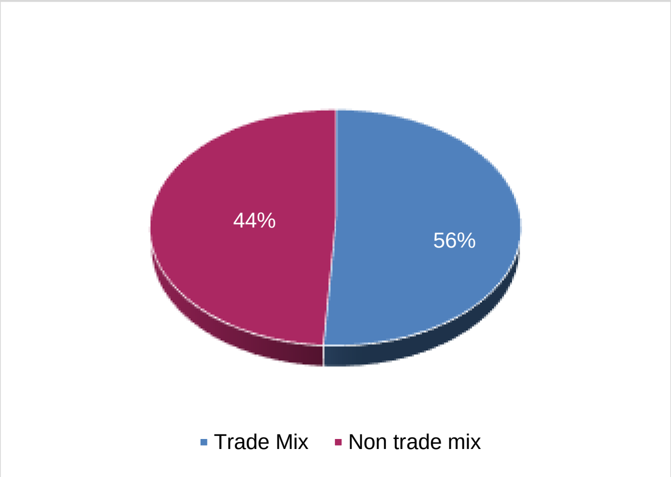


Exhibit 2: Trade Mix in FY23



Source: Company, Axis Securities

Key Subsidiary Performance Analysis

Particulars (Rs Cr)	FY22	FY23	Change	Comment/Analysis
Revenues				
Udaipur Cement Works Ltd (UCWL)	881	1032	17%	Superior demand in the Northern market helped in revenue growth.
Hansdeep Industries & trading company ltd	0.43	0.10	-75%	
Ram Kanta Properties Pvt Ltd	0.43	0.42	-2%	
Net Worth				
Udaipur Cement Works Ltd (UCWL)	246	345	40.0%	Accumulation of Profits and fresh capital injection resulted in the growth of net worth.
Hansdeep Industries & trading company ltd	116	116	0%	
Ram Kanta Properties Pvt Ltd	115.	117	1	
PAT				
Udaipur Cement Works Ltd (UCWL)	56	50.5	-13%	Higher costs impacted the profit.
Hansdeep Industries & trading company ltd	-0.057	0.055		
Ram Kanta Properties Pvt. Ltd	0.056	0.24		

Source: Company; Axis Securities

Cost OptimizationMeasures

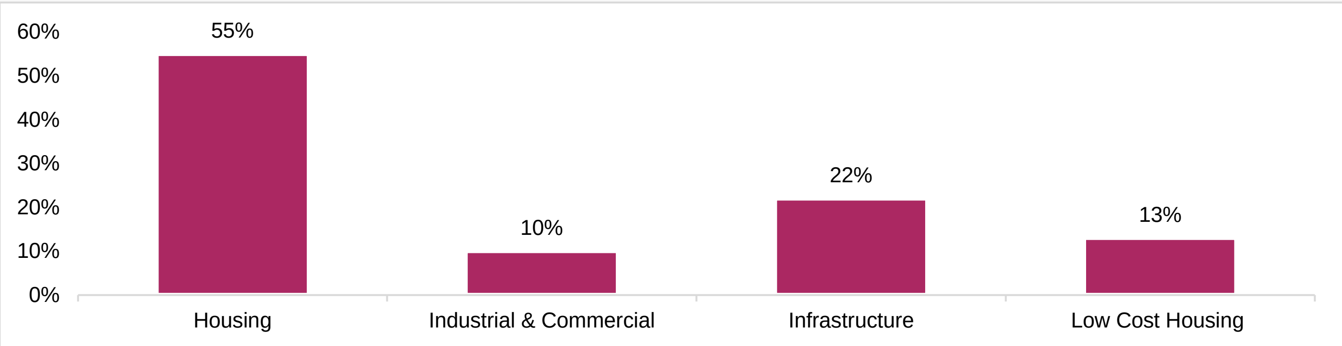
The elevated cost resulted in the company's cost/tonne inching up in FY23 to Rs 4,989/tonne from 3,044/tonne in FY22 as energy cost during the year spiked by 41% on a per tonne basis.

- **Power/Fuel Cost**: In FY23, the company's power and fuel costs increased 41%/tonne on a YoY basis on account of the higher coal and Pet coke costs. The company also improved its use of alternative fuels to optimise overall costs. The share of green energy in the total power/fuel mix has increased to over 37%. We expect power/fuel costs to decline by Rs 200-250 per tonne in FY24 as fuel prices soften.
- **Freight/Forwarding Cost**: Freight and forwarding costs per tonne increased 13% in FY23 YoY, as higher transportation distance, volume, and the high season fee charged by Railways negatively impacted freight costs. Diesel prices are stable and the company will absorb the higher price impact by increasing direct shipments and other freight optimization measures.
- **Raw Material Cost:** The company's overall raw material cost including changes in inventory and purchase of stock in trade per tonne was up 24% YoY owing to higher volume and the rising cost of input materials.It is looking to produce more blended cement to conserve the use of Limestone and thereby reduce its RM costs.
- **Other Expenses:** Other expenses per tonne were higher by 18% on a tonne basis owing to the higher cost of packing materials.However, various cost initiatives helped in savings of fixed costsduring the year.

Key Growth Drivers

- **Urbanisation –** India's working-age population (age 25-64) will overtake China between 2030 and 2035 to become the largest working-age population in the world. It is estimated that 37% (541 million) of India's population will live in urban areas by the end of FY25. According to CRISIL, the demand for housing is growing steadily in both urban and rural areas. This will help accelerate urbanisation, increasing demand for housing and related services, which in turn, will boost demand for cement.
- **Housing for All –**The Ministry of Finance has increased the budgetary allocation for the Pradhan MantriAwaasYojana from Rs 48,000 Cr to Rs 79,000 Cr for FY24. By FY24, 29.5 Mn houses are to be built. 21.1 Mn houses have already been completed and the remaining houses are expected to be built by Mar'24. This will keep cement demand at a high level.
- **Infrastructure push by Government –** The government has consistently invested in infrastructure to advance the country's development agenda. Rs 10 Bnhas been earmarked in Budget 2023-24, which is 33% more than the FY23 budget estimates and 37% above FY22 revised estimates. The steady increase in capital spending is a positive indicator of cement consumption in the coming years. In addition, initiatives such as the National Infrastructure Pipeline and PM GatiShakti are expected to boost construction activity in the country, thereby increasing cementdemand.
- **PM Gati Shakti –** The PM Gati Shakti National Master Plan aims to create an integrated and seamless connectivity for the movement of people, goods and services and facilitate last-mile infrastructure connectivity. The government has significantly increased Capex by 35.4% from Rs 7.5 Lc Cr to Rs 10 Lc Cr in this year's Union Budget. Moreover, states have been allocated interest-free long-term loans of Rs 1 Lc Cr to support these initiatives.

Exhibit 3: Cement consumption trend segment-wise: Housing remains the largest cement consumer



Source: Company, Axis Securities

Key operational activities during the year

Higher Capacity Utilization

The overall capacity utilization for FY23 stood at 80% while Q4FY23 utilization reached over90%.

Higher Sales

Revenue for the year stood at 6,113 Cr which was higher by 21% over FY22. This was owing to the better volume and superior realization witnessed in its operating regions during the year.

Traction in Value-added Products

The company offers value-added construction solutions in the form of ready-mix concrete (RMC), Autoclaved Aerated Blocks (AAC blocks), gypsum plaster (generic name: - Plaster of Paris), and white cement-based Wall Putty. The company has expanded the presence of these products in new geographic areas and added product variants in each category. In FY23, all of these products posted double-digit growth in sales and profitability. With the opportunity for further market penetration and adoption of these products in the market and subsequent expansion plans, continued growth of value-added products is expected.

Debt Reduction

As a result of the debt reduction, the company's leverage ratio decreased from 1.57x as of March 31, 2017, to 0.3x as of March 31, 2023. The company's net debt-to-equity ratio has also decreased from 1.2 times as of March 31, 2017, to negative levels as of March 31, 2023. This has further strengthened the balance sheet and created a solid foundation for capitalizing on future growth opportunities.

Project Expansion Updates

JKLC commissioned a 10 MW WHRS unit at its integrated plant in Sirohi (Rajasthan) in FY22, taking its total WHRS capacity to 33 MW. This expansion will help the company reduce overall powerand fuel costs. The company will also invest specifically in capacity expansion in the Northern and Western parts of the market in the coming years, as it has been allotted three limestone mining blocks in central Rajasthan and coastal Gujarat.

Digitization efforts

Various digital initiatives are underway and are at various stages of implementation to make the organization more effective. Some of these efforts include the digitization of HR processes, automation for higher productivity, digitization of emergency management systems etc.

Sales and Distribution

- **Strong distribution network:** The company has a strong distribution network of more than 7000 dealers serving customers in all markets, a strong sales & marketing team, and a technical support team to drive overall sales. It leverages various digital platforms such as a hybrid approach to use online media to generate awareness, leads, and inquiries from potential customers.
- **Strengthening relationships with channel partners:** The company has taken several steps to effectively manage its dealer networks to drive growth in its key markets and has implemented several innovative measures to strengthen relationships with its channel partners. To address dealer complaints, the company has implemented standard operating procedures (SOPs), which are implemented by its channel partners in a fair and timely manner.
- **Improving digital presence:** The company conducted various digital marketing campaigns to strengthen the visibility of its brand and boost sales in the markets through various measures. The company also hosted virtual dealer conferences that led to better brand positioning in the respective markets. The company also introduced mobile apps for internal and external stakeholders to increase the digital reach of the sales force. It led several strategic workshops for all brands and zones, involving a total of more than 300 stakeholders. It also developed a real-time performance measurement tool across all hierarchies for the sales team.

Supply Chain & Logistics

- **Optimizing logistics with digitization and automation:** The company began its digital transformation in supply chain and distribution a couple of years ago. It automated demand planning, plant-to-market allocation, the dealer ordering process, priority tracking and trip completion, among other processes. To bring transparency to the transporter's management, the company implemented a unified TMS (transportation management system) across the plant, allowing carriers to see all trip details from start to final payment on a single page.
- **Investment in Internet of Things (IoT) and Automation**: The company has recently invested in IoT and automation, using them to manage its fleet, supply chain and water conservation. It continues to focus on investing in technology to further add value to its customers. In addition to using AI in its cement plants, it has also piloted an automation project to identify and volumetrically analyse materials and stockpiles.
- **EPOD System**: In the cement industry, dealers at times avoid giving an e-proof of delivery. The company has implemented several technologies such as IVR, SMS with invoice link and SIM-based system for tracking, etc. to make the POD process error free and very user-friendly. The system brings more transparency, saves unnecessary paperwork and creates value for all stakeholders.
- **Identification of back unloading cases with full accuracy:** Back unloading and bag movement across state borders from a low-price to a high-price state are well-known abuses in the cement industry. Because the cement bags look the same, these practices go unchallenged and the traders can remain undetected. The company has made some corrections in the packaging plant and started printing the customer code on the bags so that it can now easily trace the customer involved in the abuses and take corrective action accordingly.
- **Reducing carbon footprints:** The company has also begun adding electric trucks to its fleet to reduce its environmental footprint. It has also addressed the concerns of drivers and helpers by investing in yard infrastructure so that drivers and helpers are comfortable and fresh when they come out of the plant with consignments.

Key strategies moving forward

Achieve Higher Realizations: Cement demand in India is expected to be robust in the coming years, as per-capita cement consumption in India is extremely low compared to the global average and significant investments are being made in the country's infrastructure and housing sector. The company aims to increase realizations by superior product mix, geographic mix, launching new brands, expanding the distribution network and optimizing distribution costs.

Value-Added Products: The company continues to focus on introducing value-added products and plans to launch additional products in this category to strengthen its market presence. The company acquired the AAC block plant in Aligarh to expandits RMC business in key markets like Gurgaon, Bhavnagar, and Delhi NCR. Additionally, a Greenfield putty plant in Alwar is expected to be commissioned in FY24, paving the way for capacity expansion.

Cost Optimization through sustainable operation: JKLC is one of the most efficient cement manufacturers in India and aims to gain a competitive advantage in the market by implementing all possible efficiency measures to further optimize its cost structure. The company's green energy now accounts for 37% of the company's total energy mix. It has also increased its use of alternative fuels to reduce its carbon footprint and make its operations more sustainable. The company is also looking to increase sales of cement mixes.

Capacity Expansion: The company will selectively expand its capacity in northern and western India over the next few years to optimize the use of the new limestone mines recently allotted to it. It aims to create a capacity of 30 mtpa on a consolidated basis by 2030.

Business Outlook

Sector Update: India's cement production and consumption in FY23grew by ~ 9% YoY, driven by the government's push for infrastructure development and increased real estate activity. EBITDA margins of cement players declined by almost 10% YoYin H1FY23, mostly due to an increase in power and fuel cost on the back of a sharp surge in coal prices. Limestone prices also escalated during H1FY23. There has been a 3% YoY increase on average in wholesale cement prices flattish in Q3, Q4FY23. Cement capacity reached 590-595 million tons in FY23. Lower double-digit demand should see a rise in capacity utilization by about 2% to ~ 66% level. Rising competition is limiting price increases, which have largely remained range-bound despite good demand in FY22-23. Manufacturers are hence focusing on pushing volumes along with improving project efficiency.

Demand growth expected to remain steady: The industry is expected to post 9-10% YoY volume growth in FY24, supported by continued demand for infrastructure projects and recovery in demand for single-family homes. Long-term growth expectations are in the ~7% to 8% range, primarily due to higher projected growth in these two segments. The industry, already struggling with the impact of the phenomenal increase in fuel and transportation costs, would like to pass on the cost increase to the market when sales are low. Even though FY24 seems to be a year full of opportunities, it is also full of uncertainties and challenges. The company remains optimistic about the cement outlook and maintains its long-term target of 6% to 8% sustainable annual growth. According to CRISIL Ratings, the Indian cement industry is expected to add ~80 million tonnes (MT) capacity by FY24, the highest in the last 10 years, driven by rising housing and infrastructure spending. Overall, the outlook for the cement industry is very positive. Rising demand for infrastructure and green construction materials will drive growth in the coming years.

Risks and Mitigation

Key risks identified, assessed, and mitigated during the year under review include:

- **Health &Safety risks:** Health &safety is one of the important risks identified by the company as the COVID-19 pandemic spread and impacted the overall operation during lockdown restrictions.To mitigate the risk,the company framed a standard operating procedure aligned with the guidelines issued by the government and regulatory authorities. Moreover,it also made strategic tie-ups with hospitals and local bodies to deal with any infection outbreak within its workforce.
- **Business continuity risk:** The pandemic impacted overall operational flow including labour exodus,restriction on inter-state movements, raw material and fly ash availability, etc.To mitigate this risk,the company formed a core leadership group acting as a nerve Centre to assess, plan, and respond to evolving risks in an inclusive manner and with agility.
- **Cybersecurity risk:** With remote working and virtual connectivity becoming the new normal, it has exposed many organizations to cyber security risks. The company has undertaken appropriate measures with a sense of urgency to ensure data privacy is secured. It has drawn out a detailed surveillance program, carried out vulnerability assessments, and upgraded its network security in line with international standards to be able to swiftly counteract any cyber threat.
- **Compliance risk:**The company'soperations ensure compliance with all these guidelines promptly. Any non-compliance, however, may pose a serious risk to its seamless operations. The company has taken appropriate measures to ensure proper compliance as required.
- **Legal/ Contractual obligations risks:** The company has to perform severallegal and contractual obligations as per the contract/agreements with the parties and has to ensure proper compliance and monitoring of the same regularly to carry on operations smoothly.To mitigate the risk, the company carries out an impact assessment of all contracts with taking or pay obligations and or guaranteed commitments. It also re-negotiates contracts opportunistically to reduce/remove guaranteed commitments towards flexibility and safeguard itself against future volatility.
- **Higher input cost risk:** The cost of pet coke, coal, diesel, fly ash, and packing bags have all increased at a time putting pressure on the margins of the company as they form the major part of the cost of production.To mitigate the risk the company has taken various measures such as shifting fuel use from pet coke to coal, direct dispatch of cement, monitoring of vehicles consistently and superior use of technology to combat higher costs.
- **Demand Risk:** The cement demand growth is directly correlated with the GDP growth of the country. Any slackness in GDP growth also impacts cement sales and production thereby impacting the entire industry. Demand supply imbalance creates a larger issue leading to a slowdown in the sector.To mitigate the same the company is expanding its capacity to serve an unpenetrated market, introducing new and value-added products, product marketing through various channels and cost optimization through more efficient and sustainable production

Progress on sustainability

The company has always believed in "Lean and Green"." This approach has helped the company to reduce specific energy consumption in product manufacturing. On the other hand, this has helped to increase the share of renewable energy to about 47%. The Company has consistently worked to reduce reliance on conventional fuels for heating needs in our processes, and this has helped increase the thermal substitution rate (TSR) to 4.11%. To give momentum to its sustainability agenda, the company has taken a significant step to promote LPG trucks in its logistics operations, which has helped reduce CO_2 emissions by 51.96 MT in a single benchmark step for a greener future and sustainable development. The company is also about 4 times water positive.

It has taken appropriate measures to reduce carbon and wastewater emissions and minimise the use of natural resources. Climate change, sustainable development and ecological awareness are global concerns, but as a responsible company, the company is committed to the global agenda and consistently makes large and small efforts to preserve and improve the environment in and around its operating facilities

To control greenhouse gas emissions and thereby reduce its carbon footprint, the company has invested in the use of alternative fuels, renewable energy, waste heat recovery equipment, and increased thermal substitution rates.

In addition, the company is a water-positive company, meaning it harvests more water than it consumes. With initiatives like zero waste-water discharging units, solid waste management, eco-friendly value-added products, sustainable supply chain management, use of alternative raw materials, energy conservation measures, etc., the company is one of the leading cement companies in India in terms of sustainable development and progress.

Managerial Remuneration

During the FY23 on an average employees received an annual increment of 9% with individual increments varying from 0 to 20%. There was a decrease of 36.56% in managerial remuneration during the current financial year. Such decrease was mainly attributable to a decrease in commission & ceasing to be the Executive Directors.

The company affirms that the remuneration paid during FY23 is as per the remuneration and nomination policy of the company.

Forex Analysis

- The company uses foreign currency-denominated borrowings and foreign exchange forward contracts (including options contracts - seagull structure) to manage some of its transaction exposures. The foreign exchange forward contracts and foreign exchange option contracts are not designated as cash flow hedges and are entered into for periods consistent with foreign currency exposure of the underlying transactions, generally from 1 to 36 months. Totalforex outgo stood at Rs 711 Cr during the year against Rs 488 Cr the previous year owing to CIF value of Imports of Fuel, Stores & Spares Capital Goods, Consultancy Charges, Know-How Fee, etc.)

Contingent Liability Analysis

Particulars (RsCr)	FY22	FY23	Change	Comments/Analysis
Service Tax	6.64	6.64	-	No provision has been made based on the legal opinion gathered by the company.
Sales Tax & interest	93.52	35.40	-62%	The matter is pending in court.
Income Tax	5.78	5.78	-	Appeals are pending, and no provision has been made.
Excise Duty	1.83	1.77	-3%	No provision has been made.
Other Matters	9.30	19.59	110%	Based on the legal opinion, no provision has been made
Total	**117.07**	**69.18**	**-41%**	***Any adverse decision in the above cases may impact the operational performance of the company*.**

Source: Company; Axis Securities

Related Party Transaction Analysis

Particulars (RsCr)	FY22	FY23	Change	Comments/Analysis
Udaipur Cement Works Ltd	10.48	5.70	-	Sale of clinkers in the normal course of business
Udaipur Cement Works Ltd	432	572	-	Purchase of cement in the normal course of business
Udaipur Cement Works Ltd	196	262	-	Sale of cement in the normal course of business
Udaipur Cement Works Ltd	81	123	-	Sale of Pet coke /coal at arm's length price
Udaipur Cement Works Ltd	350	750	-	Corporate guarantee by the company to the bank for sanctioning term loan
Udaipur Cement Works Ltd	-	85	-	Loan given @ 8% to UCWL for completion of expansion projects.

Source: Company; Axis Securities

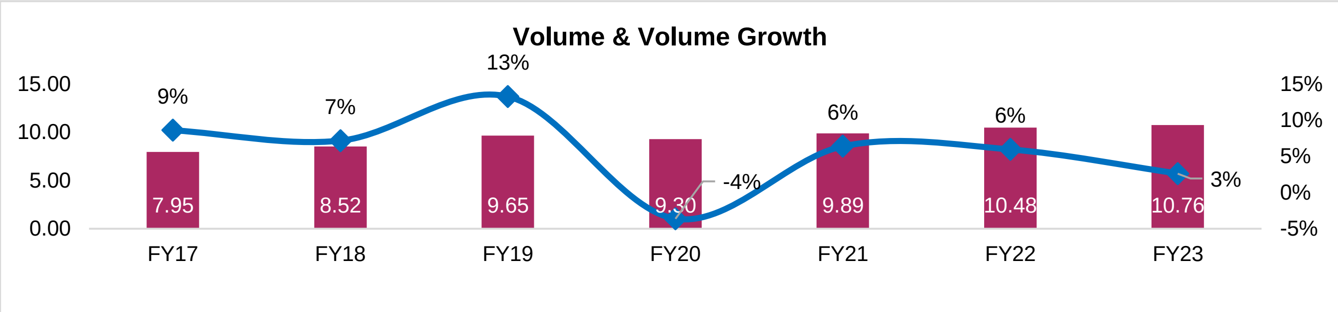
Note: All transactions with Udaipur Cement Works Ltd. have been disclosed irrespective of whether they are covered under Section 188 of the Companies Act, 2013 or not. No advance was paid for any transaction mentioned above.

Profitability Analysis (Rs Cr)

Particulars	FY22	FY23	Change (%)	Comments/Analysis
Sales	5,040	6,133	21	Revenue growth was driven by higher volume and superior realization during the year. Weexpect realization to stabilize and revenue to grow at a CAGR of 8% over FY23-25E
Raw Materials/Others	3,347	4,334	29	Raw material and other costs such as power & fuel, and freight & forwarding were higher owing to higher volumes and elevated costs during the year. We expect input costs to moderate in FY24 as fuel costs have softened substantially.
Gross Profits	1,694	1,737	2.5	Gross Profits were higher due to higher volume and realization during the year.
Operating Expenses	893	1032	15.5	Operating expenses were higher owing to higher operating costslargely contributed by the spike in Packing material cost. However, various initiatives helped the company save on Fixed costs.
Interest	96	91	-5	Interest cost was lower owing to lower interest rate and the company repaying its debt obligation to a certain extent.
EBIT	678	573	-15.5	EBIT was lower on account of higher operating cost
PAT	449	330	-26.5	PAT was lower due to the combined impact of the above-mentioned attributes
EPS	38.2	28.1	-26.5	EPS is in line with PAT.

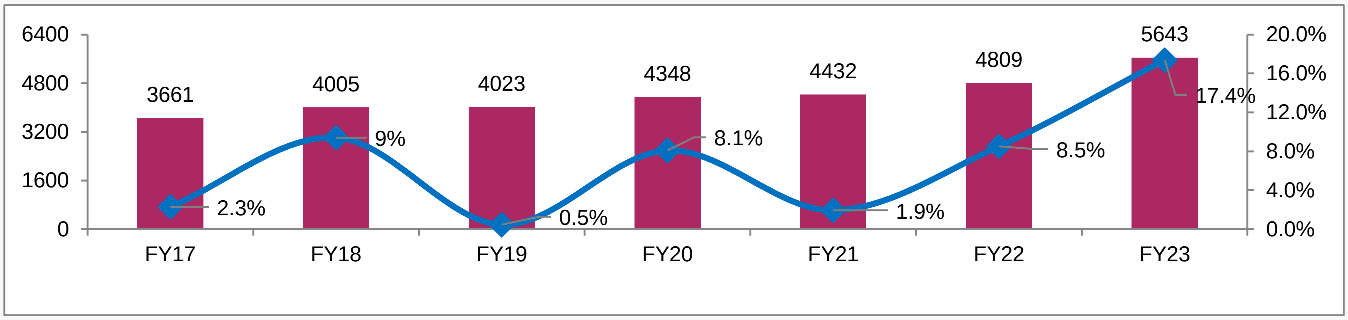
Source: Company; Axis Securities

Exhibit 5: Volume and Growth Trend



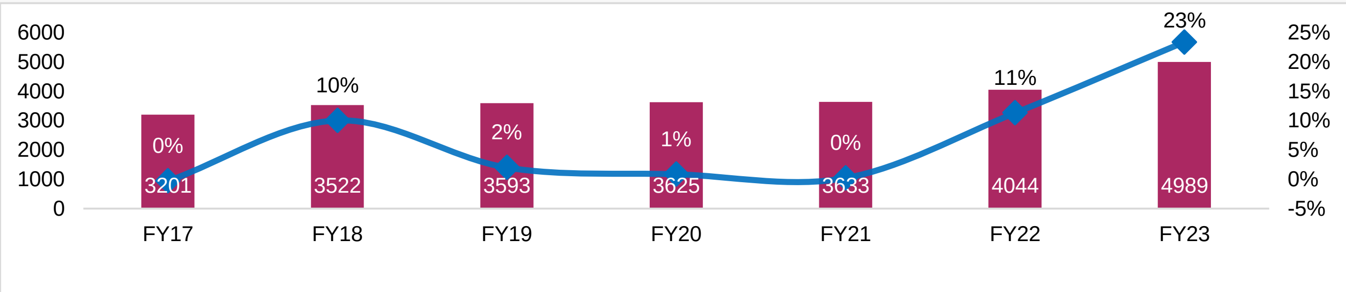
Source: Company, Axis Securities

Exhibit 6: Realization/tonne and Growth Trend



Source: Company, Axis Securities

Exhibit 7: Cost/tonne Trend



Source: Company, Axis Securities

Growth Indicators (Rs Cr)

Particulars	FY22	FY23	Change (%)	Comments/Analysis
Revenue	5,040	6.133	21	Revenue growth was driven by higher volume and superior realization during the year. We expect realization to stabilize and revenue to grow at a CAGR of 8% over FY23-25E.
EBITDA	801	704	-12	EBITDA declined owing to higher operating costs.We expect EBITDA growth of 24% CAGR over FY23-25E, driven by higher volume, lower costs, and stable realization.
PAT	449	331	-26	PAT was lower as overall costs increased during the year despite higher sales during the Year. We expect profit growth of 29% CAGR over FY23-FY25E
EPS	38.2	28.1	-26	EPS is in line with the PAT
Volume	8.62	9.38	9	Volumes growth was driven by higher demand in its operating region both from trade and non-trade segments. We expect volume growth CAGR of 9% over FY23-FY25E

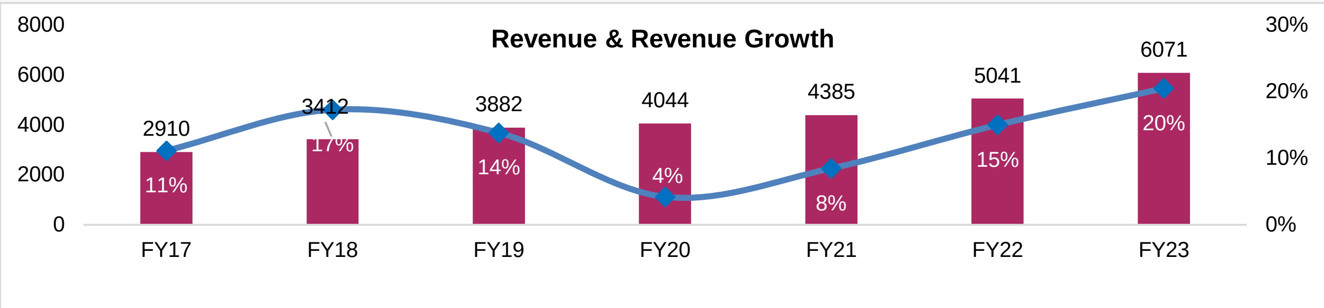
Source: Company; Axis Securities

Profitability Margins

Particulars	FY22	FY23	Change	Comments/Analysis
GPM	33.6%	28.6%	(500 bps)	GPM was lower as input costs escalated in FY23, particularly power/fuel which was up 41% on tonne basis and freight up by 13% on a tonne basis.
EBITDAM	15.9%	11.6%	(430bps)	EBITDAM was lower as input cost escalated as above. We expect the EBITDA margin to improve in FY24 as input costs start easing.
PATM	8.9%	5.4%	(350bps)	PATM was lower impacted by higher costs

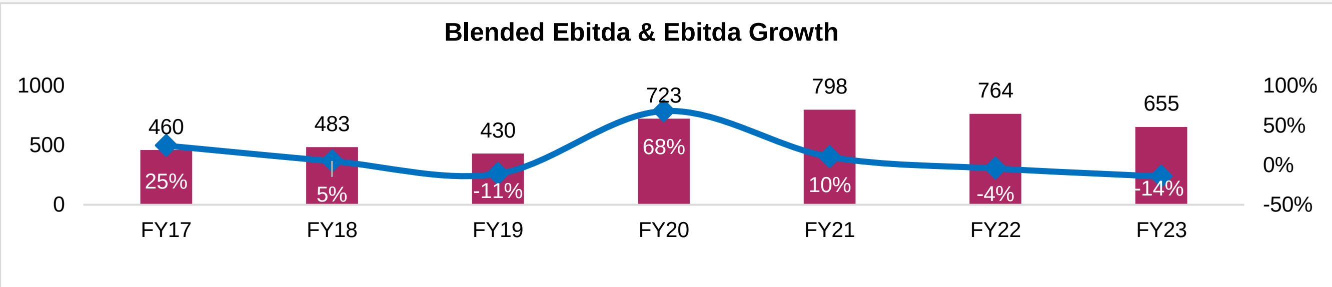
Source: Company; Axis Securities

Exhibit 8: Revenue and Revenue Growth Trend



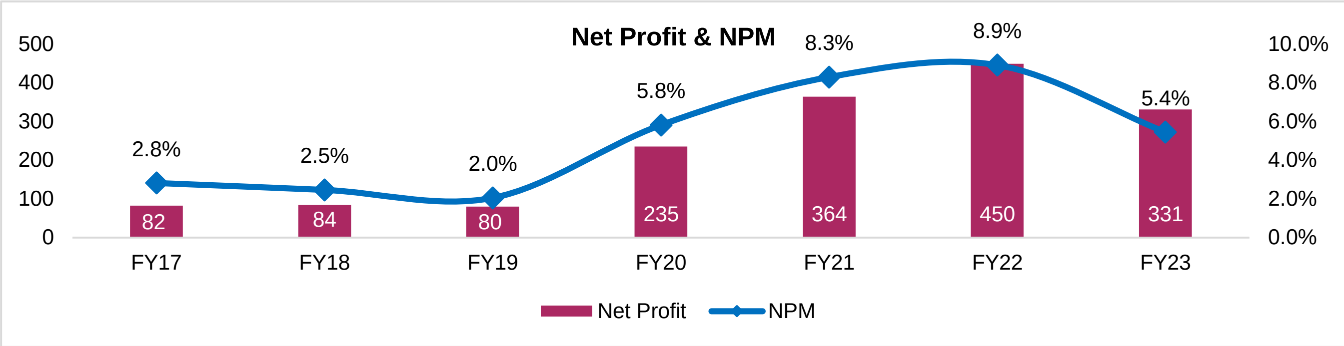
Source: Company, Axis Securities

Exhibit 9: Blended EBITDA/tonne Trend



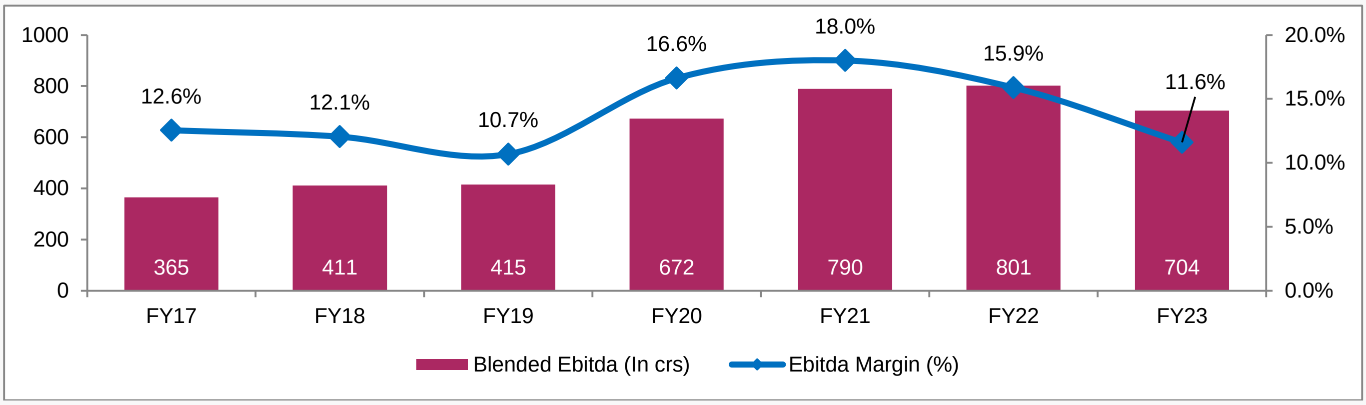
Source: Company, Axis Securities

Exhibit 10: Net Profit (Cr) and NPM Trend



Source: Company, Axis Securities

Exhibit 11: Blended EBITDA (Cr) and EBITDA Margin



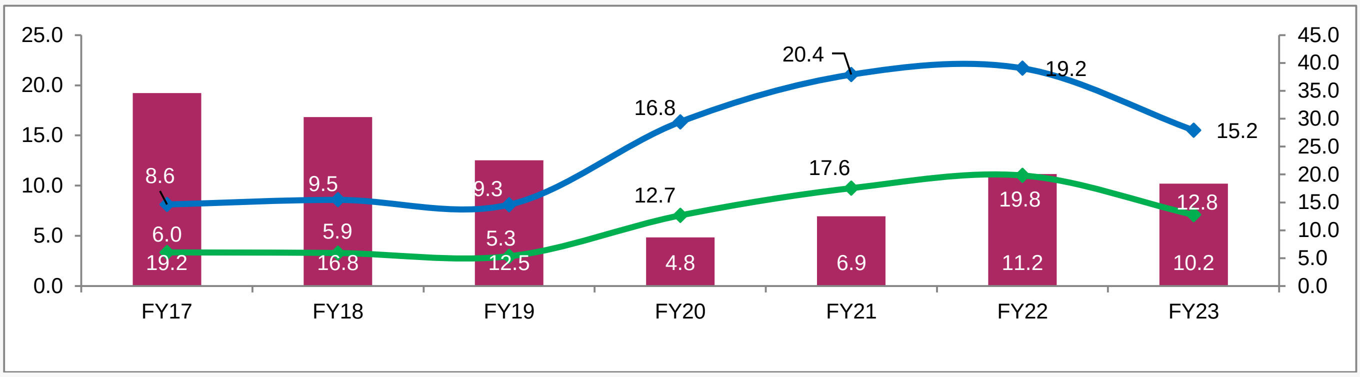
Source: Company, Axis Securities

Financial Ratios

Particulars	FY22	FY23	Change	Comments/Analysis
ROE	20%	13%	(700bps)	ROE declined due to lower profitability as higher costs impacted operating performance. We expect ROE to improve in FY24.
ROCE	19%	15%	(400bps)	ROCE was lower as the EBIT margin declined to 9% from 13% in FY22 owing to the escalation in cost. ROCEis expected to improve in FY24 as lower cost improves EBIT margin.
Asset Turn	1.27x	1,45x	0.18x	Assetturn was higher as revenue increased by 21% during the year.
Net Debt/Equity	0.02x	-0.03		The company became net debt-free in FY23
EV/EBITDA	6.9x	10x	3x	EV/EBITDA trend was higher as the stock price appreciated

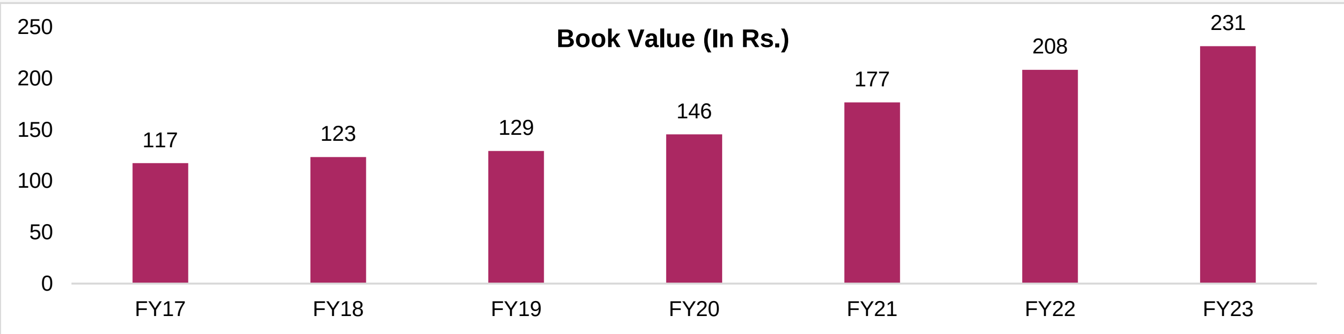
Source: Company; Axis Securities

Exhibit 12: EV/EBITDA, ROE,& ROCE Trend



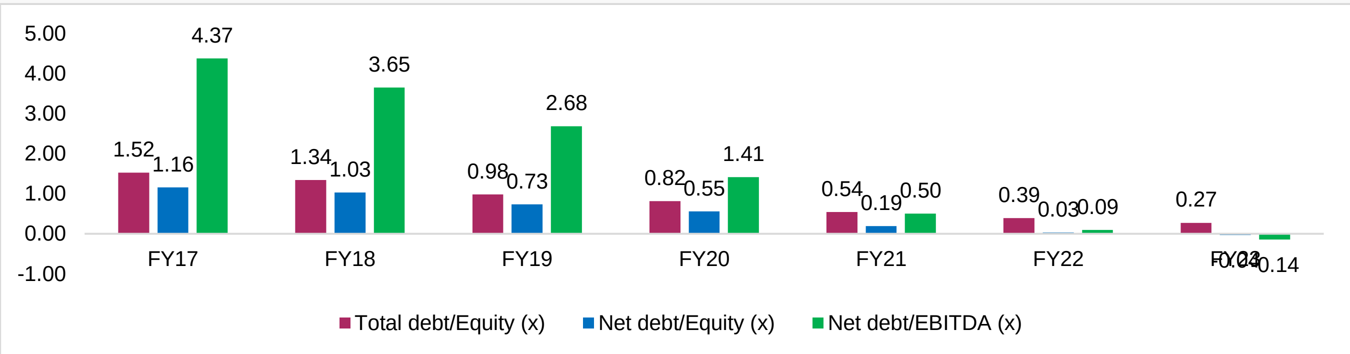
Source: Company, Axis Securities

Exhibit 13: Book Value (Rs)



Source: Company, Axis Securities

Exhibit 14: Leverage Ratio



Source: Company, Axis Securities

Key Balance Sheet Takeaways

Working Capital Management

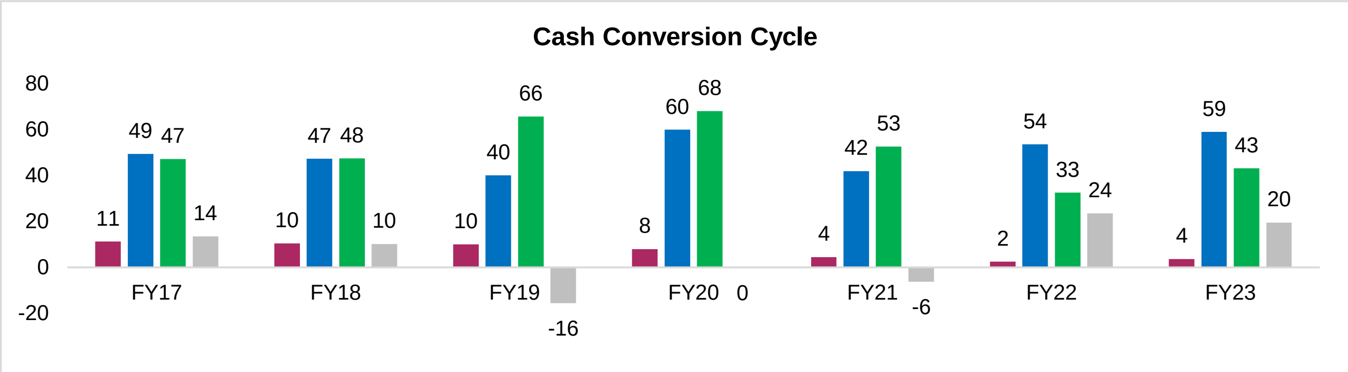
- The working capital intensity increasedin FY23 as the cash conversion cycle decreased to 20 days from 24days in FY22. This was on account of higher payable days while inventory and debtor days were also higher.During the year, OCF to EBITDA decreased to 64% vs. 67% in FY22. We expect working capital days to improve further in FY24.
- From FY19-FY23, the company generated a total OCF of Rs3,086 Cr and 22% of the total OCF (Rs675Cr) was utilized towards the company'sCapex program, indicatinga normal Capex intensity.While CFO remained the major source of funding for the company, it generated an FCF of Rs1,710Cr during FY19-FY23 after adjusting for the interest charges. The company utilized its OCF to reduce debt as it paid off Rs 1,300 Cr during this period to become net-debt free in FY23.

Cash Conversion Cycle

Particulars	FY22	FY23	Change	Comments/Analysis
Inventory Days	54	59	5	Inventory days increased owing to the higher procurement cost of fuel.
Trade Receivables	2	4	2	Receivable days increased owing to prevailing market conditions.
Trade Payables	33	43	10	Trade payable days increased on account of softening credit terms.
Cash Conversion Cycle	24	20	-3	Overall CCC declined by 3 days owing to higher payable days.

Source: Company; Axis Securities

Exhibit 15: Cash Conversion Cycle

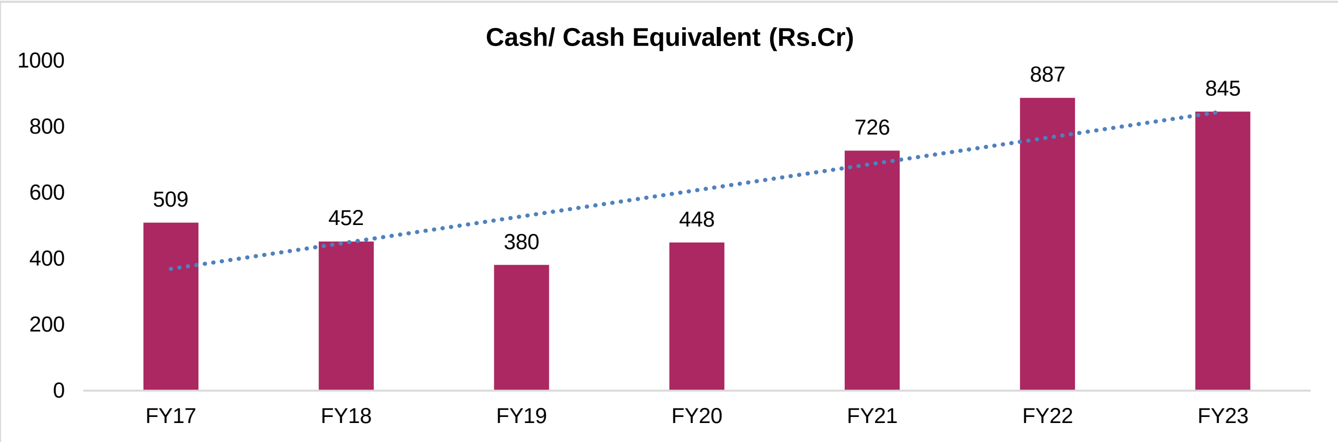


Source: Company, Axis Securities

Key Balance Sheet Takeaways (Cont...)

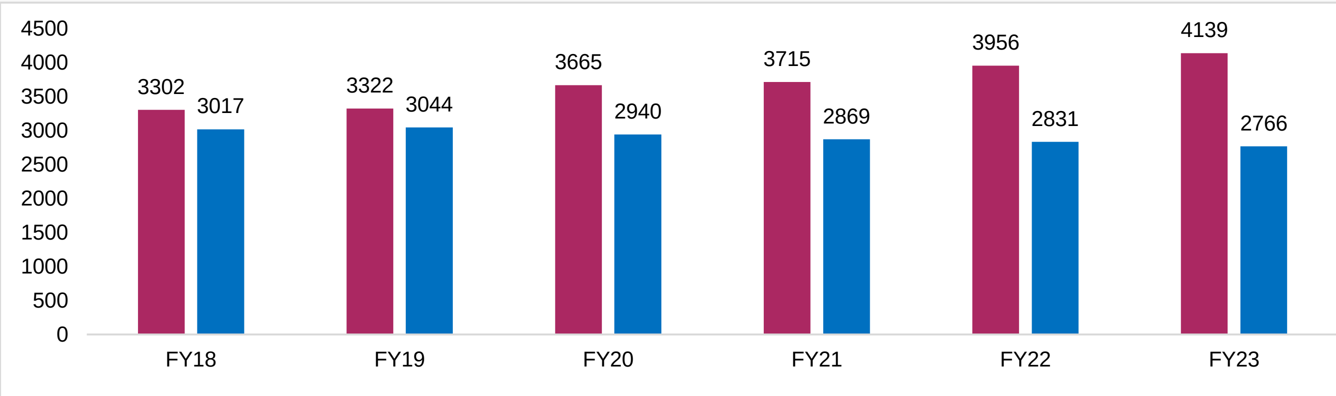
- **Debt Levels:** The company debt/equity stood at 0.25x against 0.4x in FY22 and Net debt/Equity turned negative in FY23 from 0.2x in FY22.
- **Fixed capital formation:** Gross Fixed Capital Formation improved from Rs3,956Cr in FY22 to Rs4,138Cr in FY23, an improvement of 5% as the company incurred Capex on efficiency gains (WHRS PLANT) and others.
- **Capex plans:** On a standalone basis, the company envisage Capex in the range of Rs 400-Rs450 cr in FY24. In FY23, the company expended Rs 145 Cr in Capex towards setting up the WHRS plant and in other routine capex.
- **Cash and liquidity position:** The company's liquidity position has declined owing tolower profitability and Capex requirements.The cash &equivalent stood at Rs 845 Cras of 31st Mar'23 against Rs 886 Cr in FY22, down 5% YoY. Cash & Cash equivalent may reduce owing to capital commitment through the right issue for funding the expansion plan of subsidiary UCWL.

Exhibit 16: Cash & Cash Equivalent (Rs Cr)



Source: Company, Axis Securities

Exhibit 17: Gross & Net Block



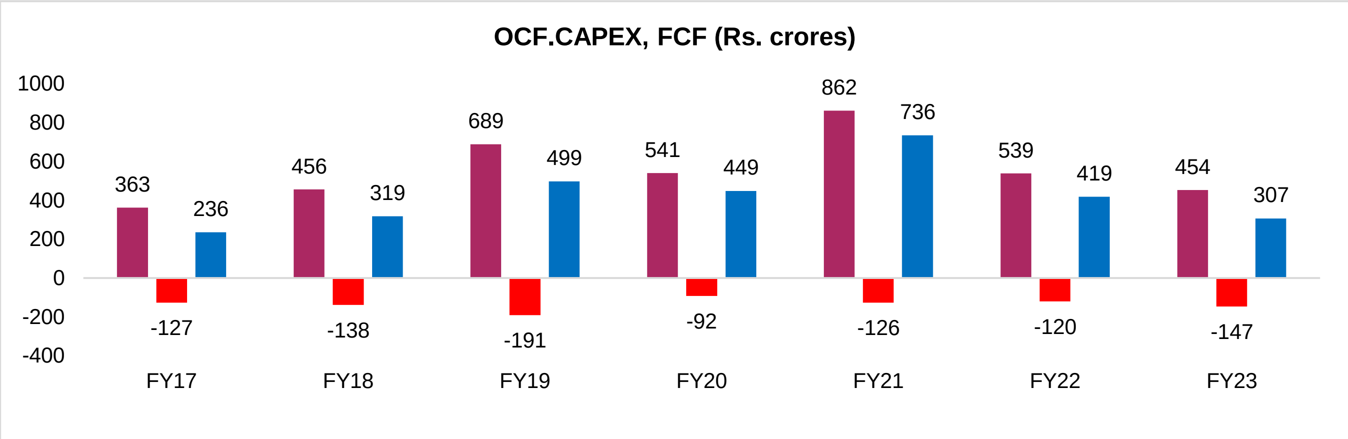
Source: Company, Axis Securities

Key Cash Flow Takeaways

Particulars (RsCr)	FY22	FY23	Change (%)	Comments/Analysis
PBT	581	481	-17	PBT was lower owing to higher costs as it impacted overall profitability during the year. In FY24, PBT is expected to improve on account of lower costs and higher volume.
Non-cash expenses				
Depreciation	190	193	2	Depreciation is as per the policy of the company.
Finance Cost	96	91	5	Finance costswere lower owing to the repayment of debt.
Others	-78	-61	-22	Lower due to reduced interest cost and other adjustments.
Working Capital Adjustments	-153	-164	7	Higher revenue led to higher working capital requirements.
CFO	539	454	-16	LowerYoY owing to lower profits during the year.
CFI	-207	-48	-78	Lower as the company sold more investments during the previous year.
CFF	-311	-334	7	Higher on account of repayment of long-term borrowings.
Capex	-120	-146	21	Higher owing to increased Capex during the year.
Free Cash Flow Generation	419	307	-27	Lower OCF during the year impacted the FCF.

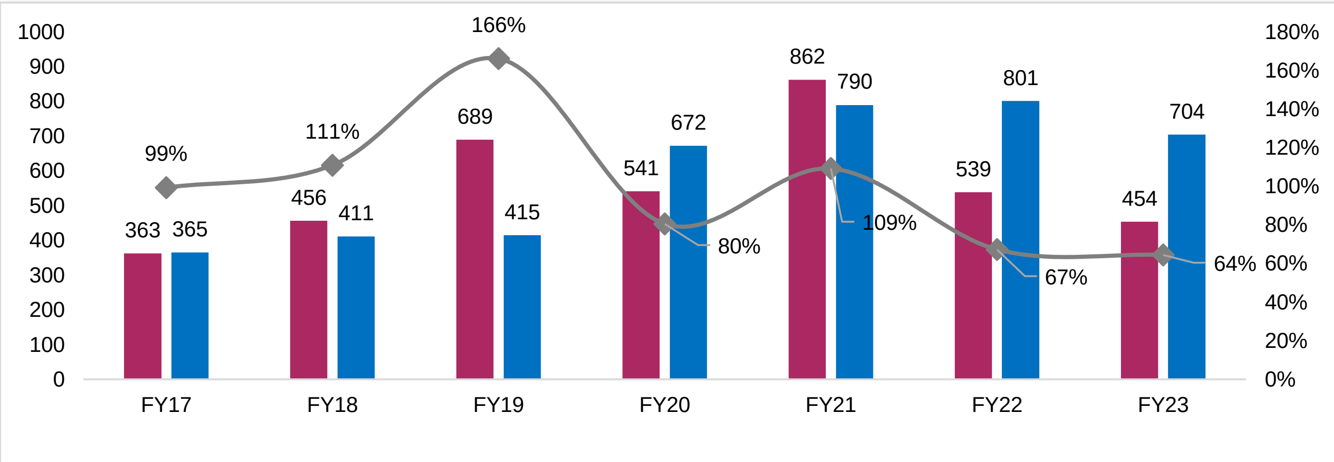
Source: Company; Axis Securities

Exhibit 18: OCF, Capex, FCF Trend(in Cr)



Source: Company, Axis Securities

Exhibit 19: OCF, EBITDA, and Conversion ratio trend (Cr)



Source: Company, Axis Securities

Corporate Social Responsibility

- The company's CSR vision clearly states to strengthen community relationships and to bring sustainable change in the quality of life of neighborhood communities through innovative solutions in Education, Health, Water & Sanitation, Skills Development, Livelihood Promotion and Rural Development.
- The company took several CSR initiatives to reduce maternal and infants mortality; organized several medical camps for the poor and marginalized communities; provided bridge and remedial classes to out-of-school and school drop-out children to bring them to the mainstream government schools; supported government schools for improvement of physical and classroom infrastructure and facilities; provided various kinds of support to students, and continued its support to school working for Special Children and their families. Many students were provided scholarships to support their education at a time when the pandemic had hit their family's income.
- The various CSR projects have been able to bring qualitative changes in the lives of the community around the plant location. One of the key impacts has been the empowerment of women due to improvement in their income resulting in their higher familial and societal status.
- On the livelihoods front, the company undertook multiple on-farm and off-farm initiatives and skills training to improve the family's income. Training for agriculture and cattle improvement helped beneficiaries improve their income through the adoption of scientific processes.

Corporate Governance Philosophy

- Corporate Governance is an integral part of the values, ethics, and best business practices followed by the company. The core values of the company are a) Commitment to excellence and customer satisfaction b) Maximising long-term shareholders' value c) Socially valued enterprise, and d) Caring for people and the environment.
- All corporate governance initiatives are undertaken by the company by adhering to the sound principles of integrity, transparency, professionalism, trusteeship, accountability, and corporate responsibility. The Board operates within the framework of a well-defined responsibility matrix which enables it to discharge its fiduciary duties of safeguarding the interest of the company and treatingall its stakeholders fairly and transparently.

Financials (Standalone)

Profit & Loss (Rs Cr)

Y/E March	FY22	FY23	FY24E	FY25E
Net sales	**5041**	**6071**	**6443**	**7094**
Other operating income	0	0	0	0
Total income	**5041**	**6071**	**6443**	**7094**
Raw Material	1238	1582	1778	1921
Power & Fuel	1066	1544	1398	1496
Freight & Forwarding	1043	1209	1310	1428
Employee benefit expenses	326	349	368	387
Other Expenses	566	683	720	785
EBITDA	**801**	**704**	**868**	**1077**
Other income	67	62	63	60
PBIDT	**868**	**767**	**931**	**1138**
Depreciation	191	194	198	237
Interest & Fin Chg.	96	92	91	83
E/o income / (Expense)	0	0	0	0
Pre-tax profit	**582**	**481**	**642**	**817**
Tax provision	132	151	211	270
Minority Interests				
Associates	0	0	0	0
RPAT	**450**	**331**	**431**	**547**
Other Comprehensive Income	0	0	0	0
APAT after Comprehensive Income	**450**	**331**	**431**	**547**

Source: Company, Axis Securities

Balance Sheet (Rs Cr)

Y/E March	FY22	FY23	FY24E	FY25E
Total assets	4839	5211	5410	5951
Net Block	2831	2766	2950	3103
CWIP	112	65	28	28
Investments	390	414	414	414
Wkg. cap. (excl cash)	227	249	267	290
Cash / Bank balance	339	335	240	367
Misc. Assets	94	138	151	175
Capital employed	**4839**	**5211**	**5410**	**5951**
Equity capital	59	59	59	59
Reserves	2394	2665	3052	3555
Minority Interests	0	0	0	0
Borrowings	963	745	595	595
DefTax Liabilities	0	0	0	0
Other Liabilities and Provision	1424	1742	5410	5951

Source: Company, Axis Securities

Cash Flow (Rs Cr)

Y/E March	FY22	FY23	FY24E	FY25E
Profit before tax	582	481	642	817
Depreciation	191	194	198	237
Interest Expenses	96	92	91	83
Non-operating/ EO item	-71	-51	-63	-60
Change in W/C	-153	-164	-18	-23
Income Tax	-98	-91	-211	-270
Operating Cash Flow	546	461	639	785
Capital Expenditure	-120	-147	-381	-390
Investments	42	30	200	-200
Others	34	26	63	60
Investing Cash Flow	-44	-91	-118	-530
Borrowings	-171	-188	-150	0
Interest Expenses	-95	-87	-91	-83
Dividend paid	-44	-59	-44	-44
Financing Cash Flow	-311	-334	-285	-127
Change in Cash	191	36	235	128
Opening Cash	46	67	139	44
Closing Cash	67	139	44	172

Source: Company, Axis Securities

Ratio Analysis (%)

Y/E March	FY22	FY23	FY24E	FY25E
Operational Ratios				
Gross profit margin	33.6%	33.6%	30.4%	31.7%
EBITDA margin	15.9%	15.9%	13.5%	15.2%
PAT margin	8.9%	8.9%	6.7%	7.7%
Depreciation / G. block	5%	5%	4%	5%
Growth Indicator				
Sales growth	15%	15%	6%	10%
Volume growth	6%	6%	8%	9%
EBITDA growth	1%	1%	23%	24%
PAT growth	24%	24%	30%	27%
Efficiency Ratios				
Sales/Gross block (x)	1.3	1.3	1.4	1.4
Sales/Net block(x)	1.8	1.8	2.2	2.3
Working capital/Sales (%)	0.23	0.23	0.15	0.17
Valuation Ratios				
PE (x)	**20**	**20**	**17**	**13**
P/BV (x)	3.61	3.61	2.34	2.01
EV/Ebitda (x)	**11.2**	**11.2**	**8.4**	**6.5**
EV/Sales (x)	1.8	1.8	1.1	1.0
MCap/ Sales (x)	1.8	1.8	1.1	1.0
EV/Tonne $	93	93	68	65
Return Ratios	20	20	15	16
ROE	19	19	18	21
ROCE	26	26	21	26
ROIC				
Leverage Ratios				
Debt/equity (x)	0.39	0.39	0.19	0.16
Net debt/ Equity (x)	0.03	0.03	0.01	-0.08
Net debt/Ebitda	0.09	0.09	0.05	-0.26
Interest Coverage ratio (x)	7.0	7.0	8.0	10.8
Cash Flow Ratios				
OCF/Sales	11%	11%	10%	11%
OCF/Ebitda	67%	67%	74%	73%
OCF/Capital Employed	15%	15%	16%	17%
FCF/Sales	8%	8%	4%	6%
AEPS (Rs)	38.2	34.4		
AEPS Growth (%)	35	-10	36.6	46.5
CEPS (Rs)	54	51	30	27
DPS (Rs)	5.0	2.0	53	67

Source: Company, Axis Securities

JK Lakshmi Cement Price Chart and Recommendation History

Date	Reco	TP	Research
04-Feb-22	BUY	640	Result Update
20-May-22	BUY	620	Result Update
29-Jul-22	BUY	570	Result Update
03-Aug-22	BUY	570	AAA
30-Sep-22	BUY	680	Company Update
07-Nov-22	BUY	745	Result Update
13-Feb-23	BUY	840	Result Update
23-May-23	BUY	720	Result Update
31-Jul-23	BUY	710	Result Update
11-Aug-23	BUY	710	AAA

Source: Axis Securities

About the analyst

Analyst: Uttam Kumar Srimal

Email: uttamkumar.srimal@axissecurities.in

Sector: cement/Infra

Analyst Bio: Uttam K Srimal is PGDBF from NMIMS with 20 years of experience in Equity Market/Research.

About the analyst

Analyst: ShikhaDoshi

Email: shikha.doshi@axissecurities.in

Sector: Cement/Infra

Analyst Bio: ShikhaDoshi is Master of Science in Finance from Illinois Institute of Technology, Chicago, currently handling Cement/infra sector.

Disclosures:

The following Disclosures are being made in compliance with the SEBI Research Analyst Regulations 2014 (herein after referred to as the Regulations).

1. Axis Securities Ltd. (ASL) is a SEBI Registered Research Analyst having registration no. INH000000297. ASL, the Research Entity (RE) as defined in the Regulations, is engaged in the business of providing Stock broking services, Depository participant services & distribution of various financial products. ASL is a subsidiary company of Axis Bank Ltd. Axis Bank Ltd. is a listed public company and one of India's largest private sector bank and has its various subsidiaries engaged in businesses of Asset management, NBFC, Merchant Banking, Trusteeship, Venture Capital, Stock Broking, the details in respect of which are available on www.axisbank.com.
2. ASL is registered with the Securities & Exchange Board of India (SEBI) for its stock broking & Depository participant business activities and with the Association of Mutual Funds of India (AMFI) for distribution of financial products and also registered with IRDA as a corporate agent for insurance business activity.
3. ASL has no material adverse disciplinary history as on the date of publication of this report.
4. I/We, Uttam Srimal, (MBA-Finance) and Shikha Doshi (Master of Science in Finance), author/s and the name/s subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect my/our views about the subject issuer(s) or securities. I/We (Research Analyst) also certify that no part of my/our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report. I/we or my/our relative or ASL does not have any financial interest in the subject company. Also I/we or my/our relative or ASL or its Associates may have beneficial ownership of 1% or more in the subject company at the end of the month immediately preceding the date of publication of the Research Report. Since associates of ASL are engaged in various financial service businesses, they might have financial interests or beneficial ownership in various companies including the subject company/companies mentioned in this report. I/we or my/our relative or ASL or its associate does not have any material conflict of interest. I/we have not served as director / officer, etc. in the subject company in the last 12-month period.Any holding in stock – No
5. 5. ASL has not received any compensation from the subject company in the past twelve months. ASL has not been engaged in market making activity for the subject company.
6. In the last 12-month period ending on the last day of the month immediately preceding the date of publication of this research report, ASL or any of its associates may have:

Received compensation for investment banking, merchant banking or stock broking services or for any other services from the subject company of this research report and / or;

Managed or co-managed public offering of the securities from the subject company of this research report and / or;

Received compensation for products or services other than investment banking, merchant banking or stock broking services from the subject company of this research report;

ASL or any of its associates have not received compensation or other benefits from the subject company of this research report or any other third-party in connection with this report.

Term& Conditions:

This report has been prepared by ASL and is meant for sole use by the recipient and not for circulation. The report and information contained herein is strictly confidential and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or the media or reproduced in any form, without prior written consent of ASL. The report is based on the facts, figures and information that are considered true, correct, reliable and accurate. The intent of this report is not recommendatory in nature. The information is obtained from publicly available media or other sources believed to be reliable. Such information has not been independently verified and no guaranty, representation of warranty, express or implied, is made as to its accuracy, completeness or correctness. All such information and opinions are subject to change without notice. The report is prepared solely for informational purpose and does not constitute an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments for the clients. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ASL will not treat recipients as customers by their receiving this report.

DEFINITION OF RATINGS	
Ratings	**Expected absolute returns over 12-18 months**
BUY	More than 10%
HOLD	Between 10% and -10%
SELL	Less than -10%
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning valuation and recommendation
UNDER REVIEW	We will revisit our recommendation, valuation and estimates on the stock following recent events
NO STANCE	We do not have any forward looking estimates, valuation or recommendation for the stock

Disclaimer:

Axis Securities Limited, Corporate office: Unit No. 2, Phoenix Market City, 15, LBS Road, Near Kamani Junction, Kurla (west), Mumbai-400070, Tel No. – 022-40508080/ 022-61480808, Regd. off.- Axis House, 8th Floor, Wadia International Centre, PandurangBudhkar Marg, Worli, Mumbai – 400 025. Compliance Officer: AnandShaha, Email: compliance.officer@axisdirect.in, Tel No: 022-42671582.SEBI-Portfolio Manager Reg. No. INP000000654