



3R MATRIX

	+	=	-
Right Sector (RS)	✓	■	■
Right Quality (RQ)	■	✓	■
Right Valuation (RV)	✓	■	■
	+ Positive	= Neutral	- Negative

What has changed in 3R MATRIX

	Old		New
RS	■	↔	■
RQ	■	↔	■
RV	■	↔	■

ESG Disclosure Score NEW

ESG RISK RATING **42.34**
Updated Jul 08, 2023

Severe Risk

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

Source: Morningstar

Company details

Market cap:	Rs. 7,277 cr
52-week high/low:	Rs. 897 / 434
NSE volume: (No of shares)	1.7 lakh
BSE code:	500380
NSE code:	JKLAKSHMI
Free float: (No of shares)	6.3 cr

Shareholding (%)

Promoters	46.3
FII	11.5
DII	28.3
Others	13.9

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-15.4	-21.1	-14.1	41.4
Relative to Sensex	-18.9	-29.4	-25.3	25.0

Sharekhan Research, Bloomberg

JK Lakshmi Cement Ltd

Levered growth factored in; Retain Buy

Cement	Sharekhan code: JKLAKSHMI		
Reco/View: Buy	↔	CMP: Rs. 618	Price Target: Rs. 770
↑ Upgrade	↔ Maintain	↓ Downgrade	

Summary

- We retain Buy on JK Lakshmi Cement Limited (JKL) with a revised PT of Rs. 770, factoring downwardly revised estimates and considering favourable risk-reward post a recent stock correction.
- JKL reported a miss on standalone operational performance for Q1FY2024, led by lower-than-estimated volume growth and higher opex per tonne. Regional sales mix marred performance.
- The company retains 19% y-o-y consolidated volume growth for FY2024 despite weak Q1. Target of Rs. 1,000 EBITDA/tonne in 18 months to stay.
- Debt raising plans of Rs. 2500 crore to fund organic/inorganic growth may increase leverage in the near term. UCW expansion is on track. The target to achieve 30mtpa capacity by 2030 remains intact.

JK Lakshmi Cement Limited (JKL) reported a miss on operational performance for Q1FY2024, led by lower-than-estimated volume growth and higher opex/tonne. Standalone revenue stood at Rs. 1,633 crores (up 5.3% y-o-y), led by volume growth of 5.1% y-o-y (majorly affected by the cyclone in Gujarat and Rajasthan, which together comprised ~70% of sales volumes) and flattish blended realisation y-o-y. Standalone EBITDA/tonne at Rs. 573 (down 26.5% y-o-y) came in lower than our estimate of Rs. 669/tonne because of higher raw material and employee costs. Hence, standalone operating profit/net profit declined by 22.8%/25.8% y-o-y to Rs. 168 crore/Rs-75 crore (much lower than our estimate). Despite the miss, management retained FY2024 consolidated volume growth of 19% y-o-y as clinker production from UCW kicks in from October and headroom from outsourced volumes. It also kept Rs. 1,000 EBITDA/tonne target over the next 18 months. The company's cement capacity target of 30MTPA by 2030 remains intact. The 2.5MTPA cement capacity expansion at UCW stays on track commission in Q2FY2025, while it has commenced trial runs for the 1.5MTPA clinker line. It has passed an enabling resolution to Rs. 2500 crore debt for organic/inorganic growth expansion.

Key positives

- Blended realisations stayed in line. The company's volume growth in the East has been higher than the 16% industry growth in the East.
- Enabling a resolution to raise Rs. 2500 crore debt would increase leverage in the near term with limited room to fund organic growth.

Key negatives

- Muted volume growth of 5% y-o-y as key regions Gujarat and Rajasthan get affected by cyclones and labour unavailability during Holi.
- Opex/tonne came in higher than estimated, leading to a miss on operational profitability led by higher raw material costs and employee costs.

Management Commentary

- Despite weak Q1, it retained 19% y-o-y consolidated volume growth for FY2024 as UCW starts clinker production from October and headroom from outsourcing units. It also retained Rs. 1000 EBITDA/tonne target in 18 months.
- Post UCW, the group's cement capacity would be 18 MTPA, while it has a vision of achieving 30 MTPA through greenfield and brownfield routes. It may look at acquisition at the proper valuation and if it provides synergies to the company.
- It has received approvals for railway siding in East, which would help in brownfield expansion in the East (post UCW expansion). It has passed enabling resolution for raising Rs. 2500 crore debt.

Revision in estimates – We have lowered our net earnings estimates for FY2024-FY2025, factoring in higher OPEX.

Our Call

Valuation – Retain Buy with a revised PT of Rs. 770: JKL has been focusing on achieving strong volume growth along with marquee improvement in operational profitability, although the same has not started yielding results. However, the management remains confident on delivering results over the next 18 months. Further, its debt-raising plans rumoured to fund the acquisition in the West has not been well taken by the market. The stock has seen 25% correction in almost four months, led by the reasons highlighted above. We bake in back-ended benefits from its ongoing efforts towards improving operational profitability leading to cuts in earnings estimates for FY2024 and FY2025. JKL is currently trading at a valuation of EV/EBITDA of 5.3x its FY2025E earnings, which we believe provides favourable risk-reward to investors. Hence, we retain Buy with a revised price target (PT) of Rs. 770, factoring downwardly revised estimates and considering a favourable risk-reward ratio.

Key Risks

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

Valuation (Standalone)

Particulars	FY22	FY23	FY24E	FY25E
Revenue	5,041	6,071	6,735	7,593
OPM (%)	15.9	11.6	11.7	14.1
Adjusted PAT	426	331	391	586
% y-o-y growth	17	-22	18	50
Adjusted EPS (Rs.)	38.2	28.1	33.2	49.8
P/E (x)	16.2	22.0	18.6	12.4
P/B (x)	3.0	2.7	2.4	2.0
EV/EBITDA (x)	8.7	9.7	8.1	5.3
RoNW (%)	19.8%	12.8%	13.5%	17.6%
RoCE (%)	15.3%	10.9%	11.8%	15.2%

Source: Company; Sharekhan estimates

Higher OPEX/tonne led to the miss on operational profitability

JK Lakshmi Cement reported standalone net revenues growth of 5.3% y-o-y at Rs. 1633 crore which was 4% lower than our estimate. Cement volumes were up 5.1% y-o-y (lower than expected) while Blended realisations were flat y-o-y. Blended standalone EBITDA/tonne at Rs. 573 (-26.5% y-o-y, -7.2% q-o-q) was lower than our estimate of Rs. 669/tonne owing to higher-than-expected raw material costs (up 21% y-o-y, down 1% q-o-q at Rs. 1658/tonne) and higher employee expense (up 6% y-o-y and 14% q-o-q at Rs. 97.6 crore). The power & fuel costs stood at Rs. 1268/tonne (-3.6% y-o-y, -5.4% q-o-q), freights costs at Rs. 1130/tonne (+0.7% y-o-y, -2% q-o-q) and other expense at Rs. 621/tonne (-4.7% y-o-y, +7.7% q-o-q) for Q1FY2024. Consolidated operating profit was down 22.8% y-o-y (-11.4% q-o-q) at Rs. 167.6 crore (18% lower than our estimate). Lower operating margins y-o-y led to a standalone net profit decline of 25.8% y-o-y (down 23.1% q-o-q) at Rs. 74.9 crore (26% lower than our estimate). The company's board approved fundraising through Term Loan(s)/ Issue of Debt Securities/ Bonds or any combination thereof, in one or more tranches, upto an amount of Rs. 2,500 Crore to part finance its Ongoing Projects and for funding its various growth opportunities including inorganic growth.

Management Key Concall highlights

- ◆ **Guidance:** Despite weak Q1, it retained 19% y-o-y consolidated volume growth for FY2024 as UCW starts clinker production from October and headroom from outsourcing units. It also retained Rs. 1000 EBITDA/tonne target in 18 months, which would be achieved through geomix, premium product sales (currently 26% vs 21-22% last year), blended cement (reached 66-67% and target of 75%), supply chain efficiencies, AFR levers (Sirohi AFR by October, TSR target of 10% from current 4%).
- ◆ **Q1FY24 performance:** The company could have done better volumes, opex and employee costs during Q1. As ~70% of its sales volumes come from Rajasthan (post-cyclone impact) and Gujarat (affected by cyclone and unavailability of labour during Holi, the sales volume growth and realisations were lower during the quarter. However, it has grown more than 16% industry growth in the East. Further, the breakdown in one plant led to lower WHR production, impacting power & fuel costs.
- ◆ **Capacity expansion:** Post UCW, the group's cement capacity would be 18 MTPA, while it has a vision of achieving 30 MTPA through greenfield and brownfield routes. It has received approvals for railway siding in East which would help in brownfield expansion in East (post UCW expansion). It has passed enabling resolution for raising Rs. 2500 crore debt. It may look at acquisition at the right valuation and if it provides synergies to the company.
- ◆ **Debt:** The standalone debt and cash stands at Rs. 770 crore and Rs. 900 crore, respectively. The consolidated debt and cash stands at Rs. 1950 crore and Rs. 950 crore respectively.
- ◆ **UCW merger:** The MAT credit outstanding has come down to Rs. 140 crore from Rs. 200 crore. After exhaustion of MAT credit in two years, it would plan for a UCW merger with JK Lakshmi.
- ◆ **Fuel cost:** On a Kcal basis, fuel consumption cost for Q1FY2024 was Rs. 2.23 as against Rs. 2.42 in Q4FY2023. The current consumption cost is Rs. 2.15. The benefit of lower fuel cost comes with a 4-6 months lag. It is currently holding 100 days of fuel inventory.
- ◆ **Capex:** Capex for FY2024 is estimated at Rs. 400 crore, of which it has spent Rs. 50 crore in Q1.
- ◆ **Renewable power:** The 56 MW solar power in Durg (26% equity stake) is expected to commission in October. The 7 MW Sirohi unit is expected over 3-4 months.
- ◆ **Other highlights:** For Q1, rail: road mix is 10:90. Trade mix 55%. Lead distance 400 kms (North – 430 kms, East – 300 kms). Non-cement revenue stood at Rs. 133 crore (4% OPM) of which RMC comprise Rs. 63 crore. Fuel mix is coal 40%, pet coke 43%, and balance biomass.

Results (Standalone)				Rs cr	
Particulars	Q1FY2024	Q1FY2023	Y-o-Y %	Q4FY2023	Q-o-Q %
Net Sales	1633.3	1551.0	5.3%	1728.9	-5.5%
Total Expenditure	1465.7	1334.0	9.9%	1539.8	-4.8%
Operating profit	167.6	217.0	-22.8%	189.1	-11.4%
Other Income	13.9	7.4	86.9%	17.8	-22.0%
EBIDTA	181.5	224.4	-19.1%	206.9	-12.3%
Interest	22.9	24.7	-7.2%	19.5	17.5%
PBDT	158.5	199.7	-20.6%	187.4	-15.4%
Depreciation	47.0	47.3	-0.7%	50.1	-6.2%
PBT	111.5	152.4	-26.8%	137.3	-18.8%
Tax	36.6	51.5	-28.8%	40.0	-8.3%
Extraordinary items	0.0	0.0	-	0.0	
Reported Profit After Tax	74.9	100.9	-25.8%	97.3	-23.1%
Adjusted PAT	74.9	100.9	-25.8%	97.3	-23.1%
EPS (Rs.)	6.4	8.6	-25.8%	8.3	-23.1%
Margins (%)			BPS		BPS
OPMs	10.3%	14.0%	(373)	10.9%	(68)
PAT	4.6%	6.5%	(192)	5.6%	(104)
Tax rate	32.8%	33.8%	(92)	29.1%	375

Source: Company; Sharekhan Research

Outlook and Valuation

■ Sector View – Improving demand brightens the outlook

The cement industry has seen sustained improvement in demand over the past 15 years, barring a couple of years, while regional cement prices have been on a rising trajectory over the past five years. The cement industry is expected to witness improvement in demand as the situation normalises from the second wave of COVID-19, led by infrastructure and rural demand. Strong pick-up in the residential real estate sector is expected to sustain after the second wave of COVID-19. The sector's long-term growth triggers in terms of low per capita consumption and demand pegged at 1.2x GDP remain intact. The government's Rs. 111 lakh crore infrastructure investment plan from FY2020 to FY2025 would lead to healthy demand.

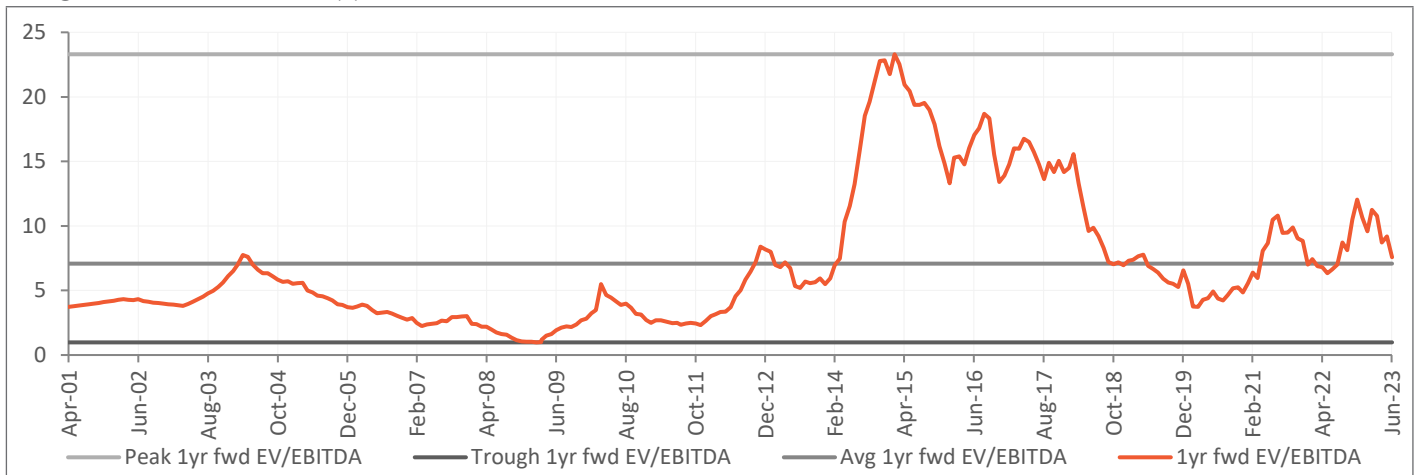
■ Company Outlook – Capacity expansion to provide the next leg of growth from FY2025

JKL is expected to benefit from sustained rural sector demand and infrastructure demand improvement. The pricing environment in key regions remains healthy. However, the company is facing constraints with clinker capacity utilisation at a peak level over the trailing peak quarters. JKL's expansion plans at UCW of 2.5MTPA grinding unit are expected to be completed by Q2FY2025, although the 1.5MTPA clinker line is expected earlier in Q3FY2024, which would provide the next leg of growth. Meanwhile, the company's standalone debt de-leveraging would continue to improve its balance sheet strength. On the other hand, the cement industry is on a strong growth trajectory for the next three years. The company's operational efficiency measures would aid in improving operational profitability going ahead.

■ Valuation – Retain Buy with a revised PT of Rs. 770

JKL has been focusing on achieving strong volume growth along with marquee improvement in operational profitability, although the same has yet not started yielding results. However, the management remains confident on delivering results over the next 18 months. Further, its debt-raising plans rumoured to fund the acquisition in West has not been well taken by the market. The stock has seen 25% correction in almost four months, led by the reasons highlighted above. We bake in back-ended benefits from its ongoing efforts towards improving operational profitability leading to cut in earnings estimates for FY2024 and FY2025. JKL is currently trading at a valuation of EV/EBITDA of 5.3x its FY2025E earnings, which we believe provides favourable risk-reward to investors. Hence, we retain Buy with a revised price target (PT) of Rs. 770, factoring downwardly revised estimates and considering a favourable risk-reward ratio.

One-year forward EV/EBITDA (x) band



Source: Sharekhan Research

Peer Comparison

Particulars	P/E (x)		EV/EBITDA (x)		P/BV (x)		RoE (%)	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
UltraTech	35.4	27.9	19.8	16.0	4.1	3.6	12.1	13.8
Shree Cement	50.2	40.1	19.6	15.8	4.4	4.1	9.1	10.6
JK Lakshmi Cement	18.6	12.4	8.1	5.3	2.4	2.0	13.5	17.6
Dalmia Bharat	50.2	44.3	14.0	12.6	2.2	2.1	4.5	4.9

Source: Sharekhan Research

About company

JKL was set up in 1982 in Sirohi, Rajasthan. The company is part of JK Organisation, which operates in India and abroad and is present in the tyre, cement, paper, power transmission and sealing solutions, dairy products, and textile industries. The company has a wide network of over 7,000 dealers across Rajasthan, Gujarat, Haryana, Delhi, Uttar Pradesh, Punjab, Jammu and Kashmir, Madhya Pradesh, Chhattisgarh, Odisha, South Bengal, Vidharbha, Mumbai, and Pune.

Investment theme

JKL is expected to benefit from sustained rural sector demand along with improvement in infrastructure demand. The pricing environment in key regions remains healthy. However, the company is facing capacity constraints with clinker capacity utilisation at peak level over the trailing peak quarters. JKL's expansion plans at UCW (1.5MTPA clinker and 2.5MTPA grinding unit) are expected to be completed by Q2FY2025, which would provide the next leg of growth from FY2025.

Key Risks

- ◆ Pressure on cement demand and cement prices in the northwest and eastern regions of India can affect financial performance.
- ◆ Macroeconomic challenges leading to lower government spending on infrastructure and housing sectors can negatively affect the company's performance.

Additional Data

Key management personnel

Bharat Hari Singhanian	Chairman
Shri Arun Kumar Shukla	President and Director
S. A. Bidkar	Chief Financial Officer

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Bengal & Assam Co Ltd.	44.28
2	Axis Asset Management Co. Ltd./India	6.48
3	L&T Mutual Fund Trustee Ltd./India	4.34
4	India Capital Fund Ltd.	2.40
5	DSP Investment Managers Pvt. Ltd.	2.24
6	The Vanguard Group Inc.	1.99
7	The Goldman Sachs Group Inc.	1.80
8	The Goldman Sachs Group Inc.	1.80
9	ICICI Prudential Asset Management	1.60
10	HDFC Life Insurance Co. Ltd.	1.34

Source: Bloomberg

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Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/weak realisation environment resulting in margin pressure and deteriorating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

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Registration and Contact Details: Name of Research Analyst - Sharekhan Limited, Research Analyst Regn No.: INH000006183. (CIN): - U99999MH1995PLC087498. Registered Office: The Ruby, 18th Floor, 29 Senapati Bapat Marg, Dadar (West), Mumbai – 400 028, Maharashtra, INDIA. Tel: 022-6115000.

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Compliance Officer: Ms. Binkle Oza; Tel: 022-61169602; email id: complianceofficer@sharekhan.com

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