



**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

|                        |              |       |       |        |
|------------------------|--------------|-------|-------|--------|
| <b>ESG RISK RATING</b> | <b>42.34</b> |       |       |        |
| Updated Aug 08, 2023   |              |       |       |        |
| <b>Severe Risk</b>     |              |       |       |        |
| NEGL                   | LOW          | MED   | HIGH  | SEVERE |
| 0-10                   | 10-20        | 20-30 | 30-40 | 40+    |

Source: Morningstar

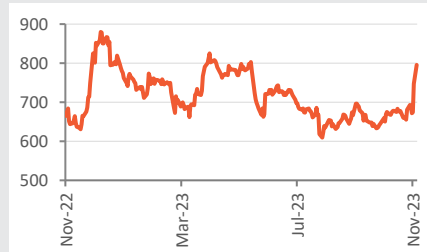
**Company details**

|                               |               |
|-------------------------------|---------------|
| Market cap:                   | Rs. 9,357 cr  |
| 52-week high/low:             | Rs. 897 / 572 |
| NSE volume:<br>(No of shares) | 1.7 lakh      |
| BSE code:                     | 500380        |
| NSE code:                     | JKLAKSHMI     |
| Free float:<br>(No of shares) | 6.3 cr        |

**Shareholding (%)**

|           |      |
|-----------|------|
| Promoters | 46.3 |
| FII       | 10.5 |
| DII       | 27.6 |
| Others    | 15.5 |

**Price chart**



**Price performance**

| (%)                | 1m   | 3m   | 6m   | 12m  |
|--------------------|------|------|------|------|
| Absolute           | 17.7 | 21.5 | -0.4 | 19.6 |
| Relative to Sensex | 19.3 | 22.7 | -5.6 | 13.4 |

Sharekhan Research, Bloomberg

**JK Lakshmi Cement Ltd**  
Restoring profitable growth; Retain Buy

|                       |                                  |                     |                                |
|-----------------------|----------------------------------|---------------------|--------------------------------|
| <b>Cement</b>         | <b>Sharekhan code: JKLAKSHMI</b> |                     |                                |
| <b>Reco/View: Buy</b> | ↔                                | <b>CMP: Rs. 795</b> | <b>Price Target: Rs. 950</b> ↑ |
| ↑ Upgrade             | ↔ Maintain                       | ↓ Downgrade         |                                |

**Summary**

- We retain a Buy on JK Lakshmi Cement Limited (JKL) with a revised PT of Rs. 950, increasing our valuation multiple to factor in healthy earnings growth outlook in 2-3 years.
- Q2 standalone revenues met expectations aided by healthy volume growth y-o-y. EBITDA/tonne beat estimates led by higher realisations and a flattish opex/tonne.
- Company trimmed consolidated volume growth guidance to 13-15% y-o-y, as we expected. Its target of Rs. 1,000 EBITDA/tonne in 18 months stays intact.
- It commissioned a 1.35 mtpa clinker unit at UCW while 2.5 mtpa grinding unit gets preponed to April 2024. It targets to achieve a 30 mtpa capacity by 2030 remains intact.

Standalone revenues were in line with expectations at Rs. 1453 crore (up 11.5% y-o-y) for Q2FY2024 led by healthy volume growth of 9.8% y-o-y while blended realisations increased by 1.5% y-o-y. Standalone EBITDA/tonne at Rs. 705 (up 17.3% y-o-y) beat our estimate of Rs. 643/tonne led by higher-than-expected realisations. Overall opex/tonne remained flattish y-o-y. Healthy volume growth along with improvement in OPMs led to beat on standalone net profit, rising 40.8% y-o-y at Rs. 83 crore. The management trimmed its consolidated volume growth guidance for FY2024 to 13-15% y-o-y (as per expectation) as against 19% y-o-y earlier. It stuck to its EBITDA/tonne target of Rs. 1000 over the next 18 months. It commissioned 1.35 mtpa clinker unit at UCW while 2.5 mtpa grinding unit may get commissioned earlier (March-April 2024 as against Q2FY2025).

**Key positives**

- Healthy volume growth of 10% y-o-y along with 1.5% y-o-y improvement in realisations. Better pricing environment, geo mix and higher trade sales aided a rise in realizations.
- Blended EBITDA/tonne improved 17% y-o-y to Rs. 705 aided by higher realisations and flattish opex/tonne. Standalone net profit beat estimate.

**Key negatives**

- Consolidated volume growth guidance for FY2024 lowered to 13-15% y-o-y from earlier 19% y-o-y.
- Approvals for conveyor belt at Durg remain in process and is expected to come in during Q3FY2024.

**Management Commentary**

- Management expects H2 to be better than H1. It retained its Rs. 1000 EBITDA/tonne target in 18 months. It has an ambition to reach Rs. 1000 crore value added product sale by FY2028.
- Prices in East rose in September-end and in October. Overall, it has seen price increase of Rs. 50-100/bag over Q2 average in its area of operations.
- It is undertaking a 1.35 mtpa cement grinding expansion at Surat which will be completed in two phases. It has started rail sliding project at Durg which is expected to complete in Q2 or Q3 of next fiscal year.

**Revision in estimates** – We have marginally increased our net earnings estimates for FY2024-FY2026, factoring in higher realisations.

**Our Call**

**Valuation – Retain Buy with a revised PT of Rs. 950:** JKL has been focusing on achieving healthy volume growth and a marquee improvement in operational profitability, which has started yielding results. The management remains confident on delivering four digit EBITDA/tonne over the next 18 months. Further, the pricing environment has improved since Q2FY2024 end and is expected to sustain in the busy season. The stock has risen ~14% since we upgraded its price target in our report dated September 4, 2023. JKL is currently trading at a valuation of EV/EBITDA of 7.1x/5.3x its FY2025E/FY2026E earnings, which we believe provides favourable risk-reward to investors. Hence, we retain Buy with a revised price target (PT) of Rs. 950, assigning higher valuation multiple to factor in healthy earnings growth outlook over the next 2-3 years.

**Key Risks**

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

**Valuation (Standalone)**

| Particulars        | FY23  | FY24E | FY25E | FY26E |
|--------------------|-------|-------|-------|-------|
| Revenue            | 6,071 | 6,802 | 7,668 | 8,283 |
| OPM (%)            | 11.6  | 12.0  | 14.3  | 15.7  |
| Adjusted PAT       | 331   | 409   | 603   | 745   |
| % y-o-y growth     | -22   | 24    | 47    | 24    |
| Adjusted EPS (Rs.) | 28.1  | 34.7  | 51.2  | 63.3  |
| P/E (x)            | 28.3  | 22.9  | 15.5  | 12.6  |
| P/B (x)            | 3.4   | 3.0   | 2.6   | 2.2   |
| EV/EBITDA (x)      | 12.7  | 10.3  | 7.1   | 5.3   |
| RoNW (%)           | 12.8% | 14.1% | 18.0% | 18.8% |
| RoCE (%)           | 10.9% | 12.2% | 15.5% | 16.4% |

Source: Company; Sharekhan estimates

## Better than expected operational performance; capacity addition plan announced

JK Lakshmi Cement reported standalone net revenue growth of 11.5% y-o-y at Rs. 1453 crore which was in-line with our estimate. Cement volumes were up 9.8% y-o-y (as per our expectation) while Blended realizations were up 1.5% y-o-y. Blended standalone EBITDA/tonne at Rs. 705 (+17.3% y-o-y, +23.1% q-o-q) was higher than our estimate of Rs. 643/tonne owing to higher than expected realisations. On the cost front, raw material costs stood at Rs. 1539/tonne (flat y-o-y, down 7% q-o-q), power & fuel costs at Rs. 1373/tonne (-5% y-o-y, +8% q-o-q), freights costs at Rs. 1125/tonne (+4% y-o-y, flat q-o-q) and other expense at Rs. 626/tonne (down 1% y-o-y, 1% q-o-q) for Q2FY2024. Consolidated operating profit was up 28.8% y-o-y (+6.5% q-o-q) at Rs. 178.5 crore (10% higher than our estimate). Healthy volume growth along with improvement in operating margins led to standalone net profit growth of 40.8% y-o-y (up 10.9% q-o-q) at Rs. 83 crore (13% higher than our estimate). The Company has taken-up for implementation setting up of additional cement grinding unit of 13.50 LTPA at its existing Surat Grinding Unit at a capex of Rs. 225 crores. Its subsidiary, Udaipur Cement Works successfully commissioned its second clinker line of 1.50 MTPA in October 2023, whereby its Clinker Capacity has doubled to 3 MTPA. Work on the 2.50 MTPA of Cement Mill & Packing Plant is as per schedule.

### Management Key Concall highlights

- ◆ **Guidance:** The company lowered its consolidated volume growth guidance for FY2024 to 12-15% y-o-y from 19% y-o-y earlier. It expects H2 to be better than H1. It retained its Rs. 1000 EBITDA/tonne target in 18 months. It aims to reach Rs. 1000 crore value added product sale by FY2028.
- ◆ **Cement prices:** Prices in East saw improvement during September end and in October. Overall, it has seen price increase of Rs. 50-100/bag over Q2 average in its area of operations.
- ◆ **Capacity expansions:** It commissioned its second clinker line of 1.5 mtpa at UCW in October 2023. The 2.5 mtpa grinding unit at UCW is expected to commission during March-April 2024. It is under taking 1.35 mtpa cement grinding expansion at Surat which will be completed in two phases. It has started rail sliding project at Durg which is expected to complete in Q2 or Q3 of next fiscal. The approvals for conveyor belt at Durg is expected to come in Q3 from which it will take 8-9 months to complete - it has one outsourced unit each in Gujarat and Punjab.
- ◆ **Surat expansion:** It has chosen Surat for expansion on account higher demand, south Gujarat having better pricing than northern part and opportunity to enter Mumbai market. It is trying to get incentives for the said expansion.
- ◆ **Power & fuel costs:** The company has three months pet coke inventory. The Kcal cost for Q2 was Rs. 2.04/unit which is expected to come down to Rs. 1.9/unit in Q3. Fuel mix for Q2 was Pet coke – 46%, coal – 38%, balance – others).
- ◆ **EBITDA improvement:** Operational profitability improved q-o-q on account of higher volumes, higher realisations (attributable to price increase, geo sales mix, trade mix), reduced lead distance (13 kms q-o-q reduction) and AFR improvement (softening of fuel prices).
- ◆ **Debt:** Standalone debt stood at Rs. 680 crore, Net cash at Rs. 140 crore. Consolidated debt stood at Rs. 1975 crore, net debt at Rs. 1175 crore. Gross debt is expected to increase to Rs. 880 crore in FY2024 and Rs. 1000 crore in FY2025 while net cash would remain at Rs. 140-150 crore for both periods. Consolidated debt is expected to increase to Rs. 2400 crore and net debt to Rs. 1600 crore in FY2024. Further, consolidated debt will increase to Rs. 2600 crore and net debt to Rs. 1800 crore in FY2025.
- ◆ **Capex:** Consolidated capex for FY2024 is expected at Rs. 1200 crore (JKL – Rs. 500 crore, UCW – Rs. 700 crore) and for FY2025 at Rs. 600 crore (JKL - Rs. 500 crore, UCW – Rs. 100 crore).
- ◆ **Other highlights:** For standalone operations, trade mix is 62%, lead distance 387 kms, 65% blended cement mix, 23% premium share of trade and non-cement revenues stood at Rs. 130 crore (3% margins). Premium products generates higher EBITDA/tonne by ~Rs. 250/tonne than normal products. The price realisation of premium products is higher by Rs. 20-25/bag.
- ◆ **UCW:** Clinker production stood at 3.84 lakh tonnes. Sales volumes at 5.59 lakh tonnes (cement sales – 4.68 lakh tonnes, clinker sales – 0.92 lakh tonnes).

| Results (Standalone)      |               |               |              |               | Rs cr         |  |
|---------------------------|---------------|---------------|--------------|---------------|---------------|--|
| Particulars               | Q2FY2024      | Q2FY2023      | Y-o-Y %      | Q1FY2024      | Q-o-Q %       |  |
| <b>Net Sales</b>          | <b>1452.6</b> | <b>1302.7</b> | <b>11.5%</b> | <b>1633.3</b> | <b>-11.1%</b> |  |
| Total Expenditure         | 1274.1        | 1164.0        | 9.5%         | 1465.7        | -13.1%        |  |
| <b>Operating profit</b>   | <b>178.5</b>  | <b>138.6</b>  | <b>28.8%</b> | <b>167.6</b>  | <b>6.5%</b>   |  |
| Other Income              | 15.1          | 21.4          | -29.5%       | 13.9          | 8.8%          |  |
| EBIDTA                    | 193.6         | 160.0         | 21.0%        | 181.5         | 6.7%          |  |
| Interest                  | 22.8          | 22.6          | 0.9%         | 22.9          | -0.5%         |  |
| PBDT                      | 170.8         | 137.4         | 24.3%        | 158.5         | 7.8%          |  |
| Depreciation              | 47.6          | 48.1          | -1.0%        | 47.0          | 1.2%          |  |
| <b>PBT</b>                | <b>123.2</b>  | <b>89.4</b>   | <b>37.9%</b> | <b>111.5</b>  | <b>10.5%</b>  |  |
| Tax                       | 40.2          | 30.4          | 32.2%        | 36.6          | 9.7%          |  |
| Extraordinary items       | 0.0           | 0.0           | -            | 0.0           | -             |  |
| Reported Profit After Tax | 83.0          | 59.0          | 40.8%        | 74.9          | 10.9%         |  |
| <b>Adjusted PAT</b>       | <b>83.0</b>   | <b>59.0</b>   | <b>40.8%</b> | <b>74.9</b>   | <b>10.9%</b>  |  |
| EPS (Rs.)                 | 7.1           | 5.0           | 40.8%        | 6.4           | 10.9%         |  |
| <b>Margins (%)</b>        |               |               | <b>BPS</b>   |               | <b>BPS</b>    |  |
| OPMs                      | 12.3%         | 10.6%         | 165          | 10.3%         | 203           |  |
| PAT                       | 5.7%          | 4.5%          | 119          | 4.6%          | 113           |  |
| Tax rate                  | 32.6%         | 34.0%         | (141)        | 32.8%         | (23)          |  |

Source: Company; Sharekhan Research

## Outlook and Valuation

### ■ Sector View – Improving demand brightens the outlook

The 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.

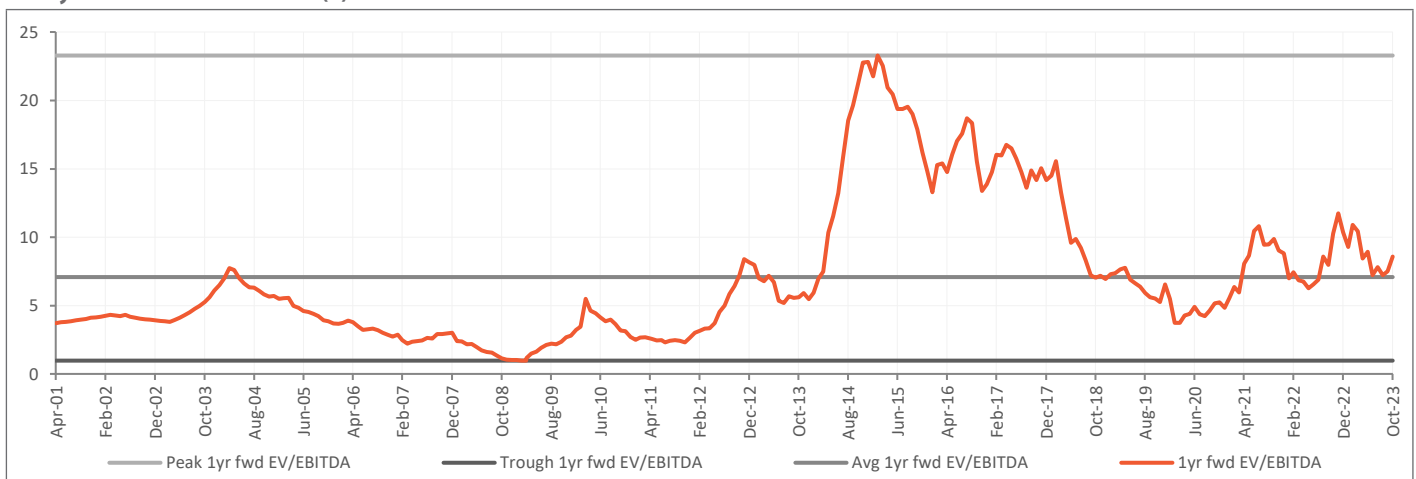
### ■ Company Outlook – Capacity expansion to provide the next leg of growth from FY2025

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 April 2024, while the 1.5MTPA clinker line has completed during October 2023, which would provide the next leg of growth. Meanwhile, the company's standalone debt de-leveraging would continue to boost 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. 950

JKL has been focusing on achieving healthy volume growth and a marquee improvement in operational profitability, which has started yielding results. The management remains confident on delivering four digit EBITDA/tonne over the next 18 months. Further, the pricing environment has improved since Q2FY2024 end and is expected to sustain in the busy season. The stock has risen ~14% since we upgraded its price target in our report dated September 4, 2023. JKL is currently trading at a valuation of EV/EBITDA of 7.1x/5.3x its FY2025E/FY2026E earnings, which we believe provides favourable risk-reward to investors. Hence, we retain Buy with a revised price target (PT) of Rs. 950, assigning higher valuation multiple to factor in healthy earnings growth outlook over the next 2-3 years.

#### 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         | 34.5    | 27.3  | 19.5          | 15.9  | 4.2      | 3.7   | 12.9    | 14.5  |
| Shree Cement      | 55.1    | 44.1  | 21.7          | 17.5  | 4.9      | 4.5   | 9.1     | 10.6  |
| JK Lakshmi Cement | 22.9    | 15.5  | 10.3          | 7.1   | 3.0      | 2.6   | 14.1    | 18.0  |
| Dalmia Bharat     | 45.7    | 37.1  | 14.0          | 12.2  | 2.4      | 2.2   | 5.3     | 6.2   |

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 Q1FY2025, 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 Singhania  | 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

| <b>Right Sector</b>    |  |
|------------------------|--|
| 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. |
| <b>Right Quality</b>   |  |
| 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   |
| <b>Right Valuation</b> |  |
| 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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Other registrations of Sharekhan Ltd.: SEBI Regn. Nos.: BSE / NSE / MSEI (CASH / F&O / CD) / MCX - Commodity: INZ000171337; DP: NSDL/CDSL-IN-DP-365-2018; PMS: INP000005786; Mutual Fund: ARN 20669.

Compliance Officer: Ms. Binkle Oza; Tel: 022-62263303; email id: [complianceofficer@sharekhan.com](mailto:complianceofficer@sharekhan.com)

For any complaints/grievance, email us at [igc@sharekhan.com](mailto:igc@sharekhan.com) or you may even call Customer Service desk on - 022-41523200 / 022-69920600.