



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	✓	↔	✓

Company details

Market cap:	Rs. 9,425 cr
52-week high/low:	Rs. 998/608
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	11.3
DII	25.8
Others	16.5

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	0.8	-15.1	1.2	19.9
Relative to Sensex	-0.2	-18.3	-12.8	-0.1

Sharekhan Research, Bloomberg

JK Lakshmi Cement Ltd

Good Q4; Ongoing capex to drive growth

Cement	Sharekhan code: JKLAKSHMI
Reco/View: Buy	CMP: Rs. 801 Price Target: Rs. 1,000
Upgrade	Maintain Downgrade

Summary

- We retain BUY on JKL with a revised PT of Rs. 1,000, factoring in downwardly revised standalone estimates and considering its healthy growth outlook over 2-3 years.
- Q4 standalone operational profitability beat estimates, led by higher-than-estimated blended realisation, while volumes surprised negatively, led by lower outsourced volume offtake.
- JKL is undertaking almost Rs. 5,500 crore capex plan over the next three years, with clinker and grinding capacity additions planned at Durg and grinding capacity additions in Surat and Northeast.
- JKL expects consolidated volume growth of 10% y-o-y, aided by recently commissioned 2.5 mtpa cement capacity at UCW and phase-I of 0.7 mtpa at Surat expected by October 2024.

JK Lakshmi Cement (JKL) reported better-than-expected operational profitability during Q4FY2024, although it lagged on volumes. Standalone revenue at Rs. 1,648 crore (down 4.7% y-o-y) came in lower than estimates on account of a 4.3% y-o-y decline in volumes (lower volume offtake from outsourced units), while blended realisation was marginally lower y-o-y (down 0.4% y-o-y), though it was higher than our estimates. Standalone EBITDA/tonne at Rs. 1,080 (up 52.5% y-o-y) beat our estimate of Rs. 809/tonne (on account of higher-than-estimated realisation). Overall standalone operating profit and net profit were up 46% y-o-y at Rs. 276 crore and Rs. 142 crore, respectively, which were 4-5% higher than our estimates. The company is undertaking almost Rs. 5,500 crore capex over the next two years related to its expansions in standalone operations (Rs. 3,400 crore) related to Durg (2.3 mtpa clinker and 4.6 mtpa cement capacity), 3.4 mtpa split cement capacity, 1.35 mtpa cement capacity at Surat along with balance capex at its subsidiary UCW (Rs. 300 crore), and its greenfield northeast expansion (balance Rs. 1,750 crore). For FY2025, management expects consolidated volume growth of 10% y-o-y, which would be aided by the commissioning of 2.5 mtpa cement capacity commissioned in March 2024 and phase-I of Surat of 0.7 mtpa by October 2024.

Key positives

- Blended standalone EBITDA/tonne at Rs. 1,080 beat our estimates on account of higher-than-expected realisations.
- Standalone leverage continues to be low with net debt of ~Rs. 200 crore.

Key negatives

- Standalone volume declined by 4.3% y-o-y on account of lower volume offtake from outsourced units.
- Cement prices during Q1FY2025 continue to be lower by 1-1.5% compared to Q4FY2024.

Management Commentary

- Currently cement prices are either stable or lower and demand is on softer side. Expect demand in Q2FY2025 to be better than Q1FY2025 and hence, cement prices should improve a little from Q2FY2025. The power & fuel costs are not expected to decline materially further and may remain range bound.
- Increasing TSR would be the major contributor to improving cost efficiency. The company would be setting up a 7MW solar power at Sirohi and is working on setting solar power units at other locations. AFR at Udaipur is likely to be commissioned in September 2024.
- JKL expects consolidated capacity utilisation of 70%, leading to >10% y-o-y volume growth for FY2025, with 2.5 mtpa Udaipur capacity coming onstream in March 2024 and phase-I of 0.7 mtpa Surat capacity expected by October 2024. For FY2026, JKL would be targeting 80% capacity utilisation as 1.35 mtpa Surat and 2.9 mtpa Udaipur capacities would be fully available.

Revision in estimates – We have lowered our net earnings estimates for FY2025-FY2026, factoring in lower standalone volume growth and lower blended realisation than earlier envisaged.

Our Call

Valuation – Retain BUY with a revised PT of Rs. 1,000: JKL has been focusing on achieving healthy volume growth and a significant improvement in operational profitability, which has started yielding results. The company is now embarking on capacity expansion plans in East and Northeast regions, which is expected to provide the next leg of growth. Further, the planned consolidation of its key subsidiary, UCWL, would help streamline operations and management apart from bringing synergistic benefits. JKL is currently trading at a valuation of EV/EBITDA of ~9x/8x 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. 1,000, factoring in downwardly revised estimates and considering its healthy 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	FY24	FY25E	FY26E
Revenue	6,071	6,320	6,655	7,256
OPM (%)	11.6	15.0	15.2	16.4
Adjusted PAT	331	510	502	595
% y-o-y growth	-22	54	-1	18
Adjusted EPS (Rs.)	28.1	43.3	42.7	50.5
P/E (x)	28.5	18.5	18.8	15.9
hP/B (x)	3.5	3.1	2.7	2.4
EV/EBITDA (x)	12.7	8.9	9.1	7.9
RoNW (%)	12.8%	17.6%	15.3%	15.9%
RoCE (%)	10.9%	14.7%	13.3%	13.3%

Source: Company; Sharekhan estimates

Operational profitability beat while volumes lag

JKL's standalone net revenue declined 4.7% y-o-y to Rs. 1,648 crore, which was 14% below our estimate. Cement volumes were down 4.3% y-o-y (much lower than our expectation), while blended realisation was almost flat y-o-y (down 4.1% q-o-q), which was much higher than our expectation. Blended standalone EBITDA/tonne at Rs. 1,080 (+52.2% y-o-y, +5.0% q-o-q) was higher than our estimate of Rs. 809/tonne owing to higher-than-expected realisations. On the cost front, raw-material costs stood at Rs. 1,787/tonne (down 7.3% y-o-y, down 3.7% q-o-q), power and fuel cost stood at Rs. 1,254/tonne (-18.5% y-o-y, -9.7% q-o-q), freights cost came in at Rs. 1,257/tonne (-5.1% y-o-y, -5.4 q-o-q), and other expense stood at Rs. 748/tonne (up 12.8% y-o-y, +4.4% q-o-q) for Q4FY2024. Consolidated operating profit was up 45.7% y-o-y (+13.7% q-o-q) at Rs. 275.5 crore (5% higher than our estimate). The steep increase in operating margins led to standalone net profit growth of 46.3% y-o-y (up 14.7% q-o-q) at Rs. 142 crore (4% higher than our estimate).

Management Key Concall Highlights

- ♦ **Guidance:** The company expects consolidated capacity utilisation of 70% leading to >10% y-o-y volume growth for FY2025 with 2.5 mtpa Udaipur capacity coming onstream in March 2024 and phase-I of 0.7 mtpa (out of 1.35 mtpa) Surat capacity expected by October 2024 (balance by March-April 2026). For FY2026, the company would be targeting 80% capacity utilisation as 1.35 mtpa Surat and 2.9 mtpa Udaipur capacities would be fully available.
- ♦ **Outlook:** Currently, cement prices are either stable or lower and demand is lower. We expect demand in Q2FY2025 to be better than Q1FY2025; and hence, cement prices should improve a little from Q2FY2025. Power and fuel costs are not expected to decline further and may remain range-bound.
- ♦ **Cement prices:** Cement prices have declined by 1-1.5% in Q1FY2025 compared to Q4FY2024. Cement prices reduced by ~5% q-o-q in Q4FY2024 and ~1.5% y-o-y in FY2024.
- ♦ **Capex:** At the standalone level, capex for FY2025 is estimated at Rs. 1,200 crore, FY2026 capex is at Rs. 1,000 crore, and FY2027 capex is at Rs. 1,200 crore. At UCW, the company would incur a balance capex of Rs. 300 crore in FY2025. For Northeast expansion, it has paid Rs. 125 crore in FY2024 (out of Rs. 325 crore for an 85% stake purchase in Agrani Cement); it would be paying the balance Rs. 200 crore in FY2025; and it would be incurring Rs. 350 crore in FY2026 and Rs. 1200 crore in FY2027. At the project level, it would be maintaining D/E of 2:1.
- ♦ **Debt:** JKL's standalone debt is Rs. 700 crore, cash is Rs. 500 crore, and net debt is worth Rs. 200 crore. At the consolidated level, debt stood at Rs. 2,000 crore, cash is at Rs. 650 crore, and net debt is of Rs. 1,350 crore.
- ♦ **Cost-efficiency measures:** Increasing TSR would be the major contributor to improving cost efficiency. It would be setting up 7MW solar power at Sirohi and is working on setting up solar power units at other locations. AFR at Udaipur is likely to be commissioned in September 2024. It is also working on digital and technology initiatives.
- ♦ **UCW expansion:** It completed the second clinker line of 1.5 mtpa in October 2023, doubling its clinker capacity to 3 mtpa. Cement grinding units of 2.5 mtpa were commissioned on March 28, 2024, which are currently operating at 40% capacity utilisation.
- ♦ **Surat GU:** It remains on schedule for doubling its cement grinding capacity to 2.7 mtpa from 1.35 mtpa.
- ♦ **Durg expansion:** JKL is expanding its clinker capacity at its integrated cement plant at Durg in Chhattisgarh by putting up an additional clinker line of 2.3 mtpa and four cement grinding units aggregating to 4.6 mtpa at Durg in Chhattisgarh and three split location cement grinding units with aggregate cement grinding capacity of 3.4 mtpa at Prayagraj in Uttar Pradesh, Madhubani in Bihar, and Patratu in Jharkhand. The project is likely to cost Rs. 2,500 crores (term loans from banks of Rs. 1,750 crore and balance internal accruals). In phase-I, 2.3 mtpa clinker units and one integrated grinding unit at Durg would be commissioned by Q1FY2026. In phase-2, the other three split location grinding units in U.P., Bihar, and Jharkhand would be commissioned by FY2027-end. The company is also putting up a railway siding at its Durg Cement Plant for Rs. 325 crore to be funded through a debt of Rs. 225 crore and the balance from internal accruals.
- ♦ **Northeast expansion:** The company is currently in the process of acquiring land. It working on getting various clearances such as EC and land clearances, which are expected to be completed by March 2025. Hence, the unit may get commissioned by March-April 2027.

- ♦ **Q4FY2024 performance:** Q4 volumes were a little down on account of lower volumes sourced from outsourced units (Punjab unit taken by another player, sourcing from Amethi unit would have had lower profitability). Non-cement revenue stood at Rs. 154 crore (including Rs. 86 crore RMC revenue) with EBITDA margin of ~5%.
- ♦ **Power:** The share of renewable power mix is 47% overall (JKL 39%, UCW 46%). The company has increased its Thermal Substitution Rate (TSR) at JKL standalone to 7% in FY2024 from 4% in FY2023. During Q4FY2024, TSR stood at 11.27%. The company targets to increase JKL's standalone TSR to 12% and UCW to 7-8%, taking the average TSR to ~10% compared to 6% right now. The cost of AFR is Rs. 1.2-1.5 on Kcal basis and conventional power is Rs. 1.8/ Kcal. Power cost for Q4 stood at Rs. 5.3/unit or Rs. 1.68 on Kcal basis.
- ♦ **Lead distance:** The lead distance stood at 372 km in Q4FY2024 (25 km less than last year).
- ♦ **Other highlights:** For Q4, the trade mix was 56% and the blended cement mix was 66%. UCW sales volumes for Q4FY2024 stood at 7.56 lakh tonne (cement – 6.42 lakh tonne, clinker – 1.14 lakh tonne); and for FY2024, it was 24.92 lakh tonne (cement – 20.97 lakh tonne, clinker – 3.95 lakh tonne). UCW clinker production for Q4FY2024 and FY2024 was 5.91 lakh tonne and 19.75 lakh tonne, respectively, and clinker sales for the same periods were 2.32 lakh tonne and 8.7 lakh tonne, respectively.

Results (Standalone)

	Rs cr				
Particulars	Q4FY2024	Q4FY2023	Y-o-Y %	Q3FY2024	Q-o-Q %
Net Sales	1647.8	1728.9	-4.7%	1586.1	3.9%
Total Expenditure	1372.3	1539.8	-10.9%	1343.9	2.1%
Operating profit	275.5	189.1	45.7%	242.2	13.7%
Other Income	18.0	17.8	1.1%	17.1	5.5%
EBIDTA	293.4	206.9	41.8%	259.2	13.2%
Interest	20.9	19.5	7.4%	20.6	1.8%
PBDT	272.5	187.4	45.4%	238.7	14.2%
Depreciation	49.2	50.1	-1.9%	51.2	-3.9%
PBT	223.3	137.3	62.7%	187.5	19.1%
Tax	81.0	40.0	102.7%	63.5	27.6%
Extraordinary items	0.0	0.0	-	0.0	-
Reported Profit After Tax	142.4	97.3	46.3%	124.1	14.7%
Adjusted PAT	142.4	97.3	46.3%	124.1	14.7%
EPS (Rs.)	12.1	8.3	46.3%	10.5	14.7%
Margins (%)			BPS		BPS
OPMs	16.7%	10.9%	578	15.3%	145
PAT	8.6%	5.6%	301	7.8%	82
Tax rate	36.3%	29.1%	715	33.8%	242

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 be sustained 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 remains intact. The government's Rs. 111 lakh crore infrastructure investment plan from FY2020 to FY2025 would lead to healthy demand.

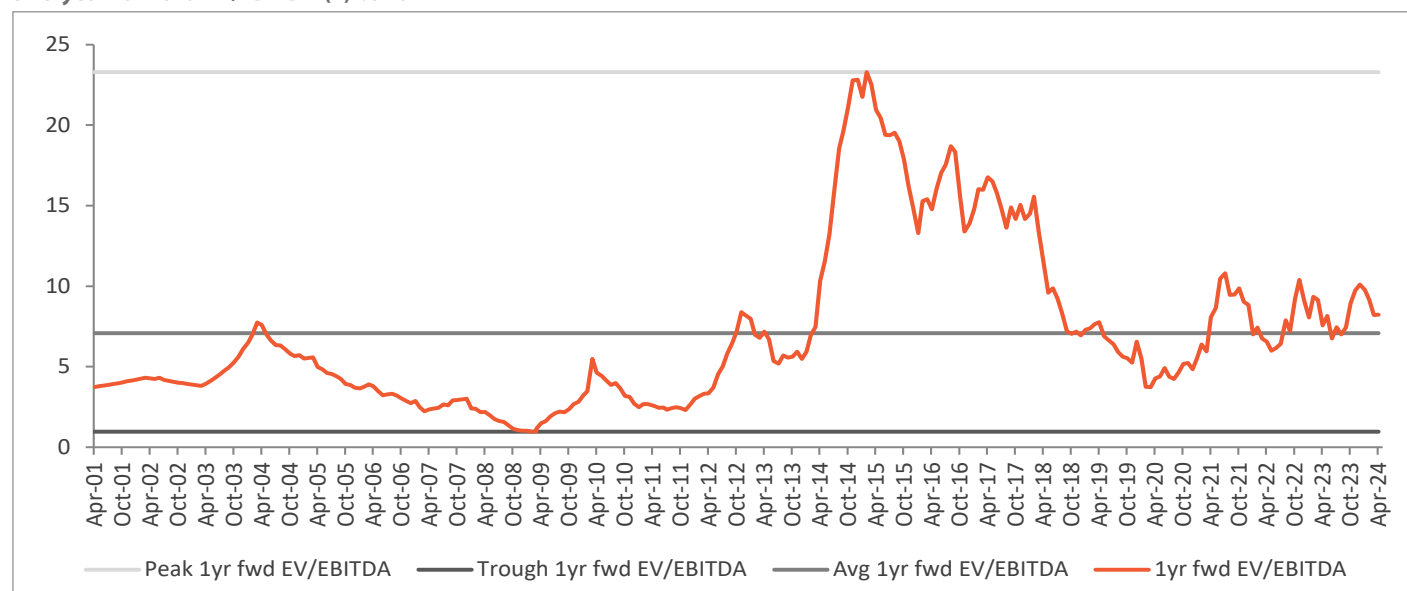
■ Company outlook - Capacity expansion to provide the next leg of growth from FY2025

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. The company is undertaking 2.3 mtpa clinker capacity and 4.6 mtpa cement grinding capacity at Durg and three split cement grinding units aggregating 3.4 mtpa at U.P., Bihar, and Jharkhand, which would provide the next leg of growth. Meanwhile, the company's consolidated debt is likely to increase, but it remains cautious about keeping net debt to EBITDA below 2.5x. On the other hand, the cement industry is on a strong growth trajectory for the next three years.

■ Valuation - Retain BUY with a revised PT of Rs. 1,000

JKL has been focusing on achieving healthy volume growth and a marquee improvement in operational profitability, which has started yielding results. The company is now embarking on capacity expansion plans in East and Northeast regions, which is expected to provide the next leg of growth. Further, the planned consolidation of its key subsidiary, UCWL, would help streamline operations and management apart from bringing synergistic benefits. JKL is currently trading at a valuation of EV/EBITDA of ~9x/8x 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. 1,000, factoring in downwardly revised estimates and considering its healthy growth outlook over the next 2-3 years.

One-year forward EV/EBITDA (x) band



Source: Sharekhan Research

Peer Comparison

Company	P/E (x)		EV/EBITDA (x)		P/BV (x)		RoE (%)	
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
UltraTech Cement	35.6	27.9	20.0	16.1	4.5	3.9	13.3	15.0
Shree Cement	30.3	25.7	15.1	12.8	4.0	3.5	13.9	14.6
JK Lakshmi Cement	18.8	15.9	9.1	7.9	2.7	2.4	15.3	15.9
Dalmia Bharat	39.7	30.9	12.8	10.9	2.0	1.9	5.2	6.3

Source: Company; 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 top levels over the trailing peak quarters. JKL's expansion plans at UCW (1.5 mtpa clinker and 2.5 mtpa 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

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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