6 November 2023

2QFY24 Results Update | Sector: Cement

J K Lakshmi Cement

Estimate change	↔
TP change	↑
Rating change	↔

Bloomberg	JKLC IN
Equity Shares (m)	118
M.Cap.(INRb)/(USDb)	93.5 / 1.1
52-Week Range (INR)	897 / 606
1, 6, 12 Rel. Per (%)	19/-4/20
12M Avg Val (INR M)	310

Financial Snapshot (INR b)

Y/E Mar	FY24E	FY25E	FY26E
Sales	69.4	75.1	83.4
EBITDA	9.9	11.9	14.0
Adj. PAT	4.7	5.8	6.8
EBITDA Margin (%)	14.3	15.9	16.8
Adj. EPS (INR)	36.1	45.9	54.5
EPS Gr. (%)	18.4	27.3	18.6
BV/Sh. (INR)	269	309	357
Ratios			
Net D:E	0.4	0.2	0.1
RoE (%)	14.2	15.9	16.4
RoCE (%)	11.5	13.1	15.4
Payout (%)	14.4	13.4	13.2
Valuations			
P/E (x)	22.0	17.3	14.6
P/BV (x)	3.0	2.6	2.2
EV/EBITDA(x)	8.8	7.3	5.9
EV/ton (USD)	76	65	57
Div. Yield (%)	0.6	0.8	0.9
FCF Yield (%)	-1.3	8.2	8.3

Shareholding pattern (%)

As On	Sep-23	Jun-23	Sep-22
Promoter	46.3	46.3	46.3
DII	27.6	28.3	24.7
FII	10.5	11.5	12.8
Others	15.5	13.9	16.2

FII Includes depository receipts

CMP: INR794 TP: INR930 (+17%) Buy

Strong performance led by higher volume and realization

Adding grinding capacity (brownfield expansion) of 1.35mtpa at Surat

- J K Lakshmi Cement's (JKLC) 2QFY24 operating performance was above our estimates, with consolidated EBITDA at INR2.2b (up 33% YoY; 20% above our estimate). EBITDA/t increased 16% YoY to INR755 (est. INR657). OPM was up 2pp YoY at 14%. PAT increased 55% YoY to INR959m (est. INR756m).
- Management indicated that cement volume growth (consolidated) should be at 12-15% YoY in FY24 (earlier guidance of 19%). The Eastern region saw the highest YoY growth during the quarter and is likely to continue to grow at ~8-10% YoY. Cement prices have risen in various key markets at different points in time. The company anticipates an average improvement in realization by INR50-100/t QoQ in 3QFY24.
- We largely maintain our FY24E/FY25E earnings estimate. JKLC is trading at 8.8x/7.3x FY24E/FY25E EV/EBITDA. JKLC is a cost-efficient player with presence in favorable regions (Gujarat and North). We value JKLC at 9x Sep'25E (earlier FY25E) EV/EBITDA to arrive at our revised TP of INR930 (INR790 earlier).

Consolidated volume grew 14% YoY and realization was up 1% YoY

- Consolidated revenue/EBITDA/PAT stood at INR15.7b/INR2.2b/INR959m (up 15%/33%/55% YoY and up 6%/20%/27% vs. our estimates). Sales volume rose 14% YoY to 2.88mt (up 4% vs. our estimate). Realization was up 1% YoY to INR5,471/t (1% above our estimate).
- Opex/t declined 1% YoY, driven by a 2%/5% decline in variable costs/other expenses. Freight cost/t rose 2% YoY, while Employee costs/t declined 2% YoY. OPM was up 2pp YoY to 14% and EBITDA/t was up 16% YoY to INR755 in 2QFY24.
- In 1HFY24, consolidated revenue grew 9% YoY to INR33b, mainly driven by volume growth (up 9%) as realization remained flat. EBITDA declined 2% YoY to INR4.1b due to higher opex/t, up 1% YoY. EBITDA/t declined 10% YoY to INR680 and OPM contracted 1.4pp YoY to 12.5%.
- CFO stood at INR2.7b vs. outflow of INR468m in 1HFY23, led by an increase in working capital. Capex stood at INR5.1b vs. INR3.3b in 1HFY23. Net-debt increased to INR11.8b vs. INR10b as of Mar'23.

Highlights from the management commentary

- Clinker/cement capacity utilization (standalone) stood at 100%/73% in 2QFY24. The company's trade cement mix increased to ~62% vs. 58% in 1Q.
- Average fuel cost was at INR2.04/Kcal vs. INR2.23/Kcal in 1QFY24. It is expected to decline up to INR1.90/Kcal in 3QFY24.
- It announced brownfield expansion of 1.35mtpa grinding capacity at its GU in Surat, Gujarat, at an estimated capex of INR2.25b. The Surat market exhibits promising demand prospects and pricing, resulting in comparatively higher profitability.

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View and valuation

- JKLC reported strong performance during the quarter, led by higher volume growth and improvement in realization. We believe capacity addition at its subsidiary (Udaipur Cement works) will drive volume growth for the company. We estimate consolidated volume CAGR of 7% over FY23-26E.
- The stock trades at 8.8x/7.3x FY24E/FY25x EV/EBITDA. We value JKLC at 9x Sep'25E (earlier FY25E) EV/EBITDA to arrive at our revised TP of INR930 (INR790 earlier). We reiterate our BUY rating on the stock.

Quarterly performance (consolidated) **(INR b)**

Y/E March	FY23				FY24				FY23	FY24E	FY24	Var.
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE			2QE	(%)
Sales Volumes (mt)	3.03	2.53	2.88	3.39	3.21	2.88	3.14	3.35	11.83	12.57	2.76	4
YoY Change (%)	7.3	2.4	10.3	2.9	5.7	13.8	9.0	(1.1)	6	6	9	
Net Sales	**16.5**	**13.7**	**15.6**	**18.6**	**17.3**	**15.7**	**17.4**	**19.0**	**64.5**	**69.4**	**14.9**	6
YoY Change (%)	24.8	13.6	21.5	16.4	4.6	14.6	11.3	2.1	19.0	7.6	8.6	
EBITDA	**2.6**	**1.6**	**1.9**	**2.3**	**2.0**	**2.2**	**2.7**	**3.1**	**8.4**	**9.9**	**1.8**	20
Margin (%)	15.5	11.9	11.9	12.5	11.3	13.8	15.3	16.4	13.0	14.3	12.1	
Depreciation	0.6	0.6	0.6	0.6	0.6	0.6	0.7	0.7	2.3	2.5	0.6	1
Interest	0.4	0.3	0.4	0.3	0.3	0.3	0.3	0.3	1.3	1.3	0.2	35
Other Income	0.1	0.2	0.1	0.2	0.1	0.1	0.2	0.2	0.6	0.6	0.1	14
PBT before EO expense	**1.7**	**0.9**	**1.1**	**1.6**	**1.2**	**1.4**	**1.8**	**2.3**	**5.3**	**6.7**	**1.1**	26
Extra-Ord. expense	-	-	-	-	-	-	-	-	-	-	-	
PBT	**1.7**	**0.9**	**1.1**	**1.6**	**1.2**	**1.4**	**1.8**	**2.3**	**5.3**	**6.7**	**1.1**	26
Tax	0.6	0.3	0.3	0.5	0.4	0.5	0.6	0.6	1.7	2.0	0.4	
Prior period tax adj.	-	-	-	-	-	-	-	-	-	-	-	
Rate (%)	33.1	33.8	27.9	29.0	32.7	32.0	32.0	26.8	30.9	30.3	32.7	
Reported PAT	**1.2**	**0.6**	**0.8**	**1.1**	**0.8**	**1.0**	**1.2**	**1.7**	**3.7**	**4.7**	**0.8**	27
Adj. PAT	**1.2**	**0.6**	**0.8**	**1.1**	**0.8**	**1.0**	**1.2**	**1.7**	**3.7**	**4.7**	**0.8**	27
YoY Change (%)	(15.5)	(29.2)	17.7	(46.7)	(30.7)	55.2	58.4	46.2	(26.9)	26.3	22.4	
Per tonne analysis (INR)												
Net realization	**5,456**	**5,431**	**5,426**	**5,496**	**5,399**	**5,471**	**5,541**	**5,673**	**5,455**	**5,524**	**5,414**	1
RM Cost	1,009	1,077	898	1,380	1,312	1,191	1,213	1,230	1,103	1,238	1,206	(1)
Employee Expenses	336	369	335	284	338	363	338	338	328	344	359	1
Power, Oil, and Fuel	1,498	1,656	1,800	1,484	1,428	1,494	1,434	1,432	1,601	1,446	1,368	9
Freight and Handling Outward	1,082	1,019	1,059	1,086	1,071	1,039	1,060	1,103	1,064	1,070	1,061	(2)
Other Expenses	684	663	691	576	637	630	649	640	650	639	762	(17)
Total Expenses	**4,608**	**4,783**	**4,783**	**4,809**	**4,786**	**4,716**	**4,694**	**4,743**	**4,746**	**4,736**	**4,757**	**(1)**
EBITDA	**847**	**648**	**644**	**687**	**612**	**755**	**847**	**930**	**709**	**788**	**657**	**15**

Source: Company, MOFSL

Highlights from the management commentary

CONFERENCE CALL

Demand and pricing

- The Eastern region saw the highest YoY growth, followed by the north-west during the quarter. The Eastern region is estimated to continue to grow in double digits (8-10%) as demand in this market is mainly driven by the IHB segment.
- Clinker/cement capacity utilization (standalone) stood at 100%/73% in 2QFY24. Cement volume growth (consolidated) should be at 12-15% YoY in FY24 (earlier guidance of 19%). Clinker sales are likely to be higher in the coming quarters due to the commissioning of new clinker line at UCWL. Additional clinker will be utilized for internal purposes initially, followed by allocation to outsourced grinding units in Gujarat and North regions. Any remaining clinker will be sold externally.
- Cement prices have increased in key markets at different points of time. Prices have increased in mid-Sep'23 and then in Oct'23. Management expects average realization improvement by INR50-100/t QoQ in 3QFY24.

Operational highlights

- Standalone sales volume was up 10% YoY at 2.53mt. UCWL's sales volume (including clinker) was up 27% YoY to 0.56mt. Consolidated sales volume (after eliminating inter-company sales) grew 14% YoY to 2.88mt.
- Non-cement revenue stood at INR1.30b vs. INR1.16b in 2QFY23. RMC revenue was INR600m vs. INR520m in 2QFY23. EBITDA margin was low in the non-cement business at ~3%.
- Average fuel cost was at INR2.04/Kcal vs. INR2.23/Kcal in 1QFY24. It is expected to decline up to INR1.9/Kcal in 3QFY24. JKLC's fuel mix in 2QFY24 was 46% petcoke, 38% coal (imported and domestic), and the remainder for others. The company is carrying fuel inventory of ~90 days. In 2Q, green power share stood at ~35%.
- Blended cement share stood at ~65%, while trade sales share increased to ~62% (vs. 58% in 1Q). Lead distance was 387km (declined from 400Km in 1QFY24).
- Premium products sales stood at ~23% (of trade volume) in 2QFY24 vs. 27% in 1QFY24.
- The company maintains its EBITDA/t guidance, aiming to achieve INR1,000/t within the next 18-24 months through a combination of realization improvement and cost efficiency measures.

Capacity expansion and capex plans

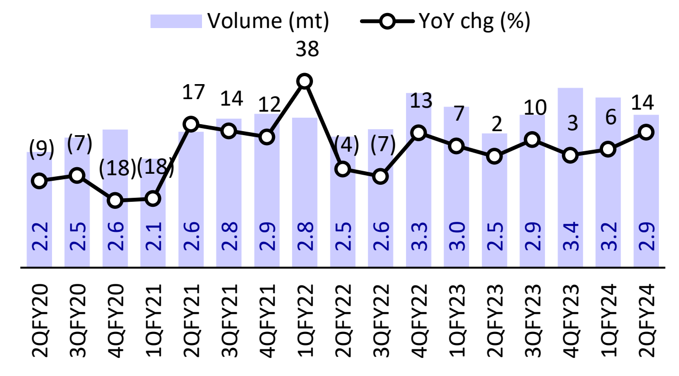
- Udaipur cement works (UCWL), subsidiary of the company, commissioned 1.5mtpa clinker capacity in Oct'23. Further, 2.5mtpa cement capacity is on full swing, and is estimated to be commissioned by Mar-Apr'24.
- It announced brownfield expansion of 1.35mtpa grinding capacity at its GU in Surat, Gujarat. The capex for this project amounts to INR2.25b, with an estimated completion within the next two years. The Surat location provides access to both the Mumbai and South Gujarat markets, with promising demand prospects. Moreover, this market has relatively higher pricing, leading to better profitability for the company.
- Standalone capex is estimated to be INR5b in FY24/FY25 (each). The company had received approval to set up a railway siding at its Durg, Chhattisgarh (east) plant in 1QFY24. While approval for the conveyor belt is expected in the current quarter. Following the approval, it will take 8 to 9 months to install the conveyor belt and about 12 months to establish the railway siding. Once the necessary steps are taken for setting up the railway siding and conveyor belt, the company will announce its expansion plans for the Durg plant. Additionally, the company is evaluating options for establishing a split-location grinding unit in the eastern market to support its potential clinker capacity expansion at the Durg plant.
- In UCWL, capex is estimated to be INR7b/INR1b in FY24/FY25.

Other highlights

- Standalone net cash stood at INR1.4b, while consolidated net debt stood at INR11.8b vs. INR10b as of Jun'23. Peak net debt (consolidated) is estimated at INR18b by Mar'25, while at standalone, it will continue to be net cash positive.
- It commissioned the AAC block plant at Aligarh and achieved capacity utilization of 75% (producing 11k cubic meter monthly). While, greenfield Wall putty at Alwar is delayed due to construction ban in Delhi-NCR (target to start trial run by end-3QFY24). It targets revenue from value-added business to increase to INR10b in the next five years (by FY28) from INR5b currently.

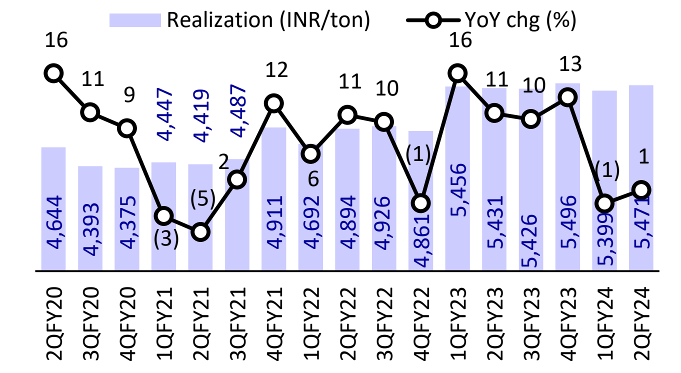
Story in charts

Exhibit 1: Sales volume (consolidated) up 14% YoY



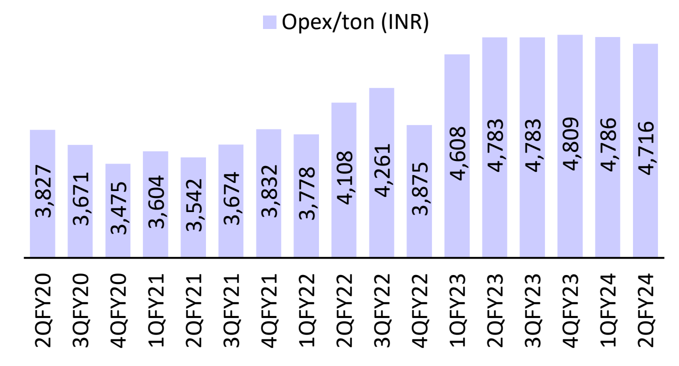
Source: Company, MOFSL

Exhibit 2: Blended realization was up ~1% YoY



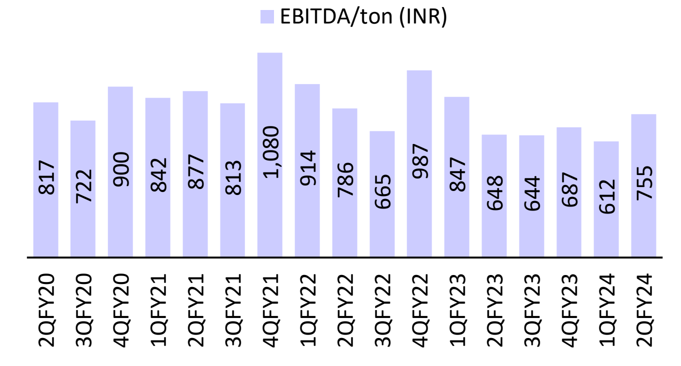
Source: Company, MOFSL

Exhibit 3: OPEX/t declined 1.4% YoY



Source: Company, MOFSL

Exhibit 4: EBITDA/t was up 16.5% YoY



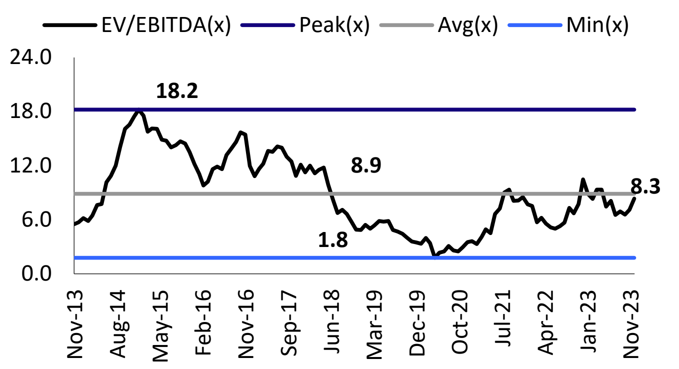
Source: Company, MOFSL

Exhibit 5: Key performance indicators – per ton analysis

INR/t	2QFY24	2QFY23	YoY (%)	1QFY24	QoQ (%)
Net realization	**5,471**	**5,431**	**0.7**	**5,399**	**1.3**
RM Cost	1,191	1,077	10.6	1,312	(9.2)
Employee Expenses	363	369	(1.7)	338	7.2
Power, Oil, and Fuel	1,494	1,656	(9.8)	1,428	4.6
Freight and Handling Outward	1,039	1,019	2.0	1,071	(3.0)
Other Expenses	630	663	(5.0)	637	(1.1)
Total Expenses	**4,716**	**4,783**	**(1.4)**	**4,786**	**-1.5**
EBITDA	**755**	**648**	**16.5**	**612**	**23.3**

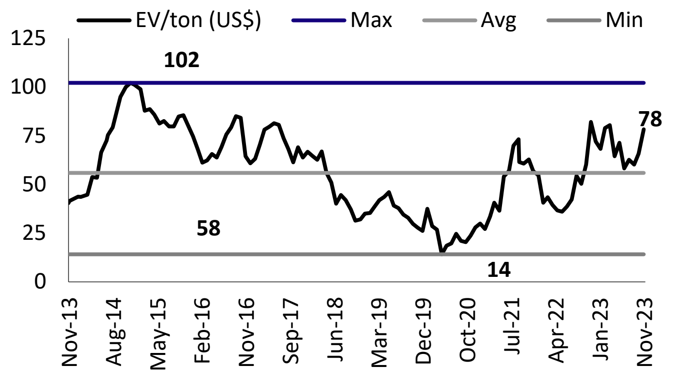
Source: Company, MOFSL

Exhibit 6: One-year forward EV/EBITDA chart



Source: Company, MOFSL

Exhibit 7: One-year forward EV/t chart



Source: Company, MOFSL

Financials and valuations (consolidated)

Income Statement								(INR m)
Y/E March	**FY19**	**FY20**	**FY21**	**FY22**	**FY23**	**FY24E**	**FY25E**	**FY26E**
Net Sales	**43,163**	**43,641**	**47,274**	**54,199**	**64,515**	**69,446**	**75,139**	**83,410**
Change (%)	15.2	1.1	8.3	14.6	19.0	7.6	8.2	11.0
EBITDA	**4,536**	**7,981**	**9,386**	**9,507**	**8,387**	**9,910**	**11,934**	**13,994**
Margin (%)	10.5	18.3	19.9	17.5	13.0	14.3	15.9	16.8
Depreciation	2,110	2,198	2,253	2,235	2,283	2,467	2,828	3,068
EBIT	**2,426**	**5,782**	**7,133**	**7,272**	**6,104**	**7,443**	**9,106**	**10,926**
Int. and Finance Charges	2,528	2,250	1,920	1,422	1,334	1,346	1,411	1,747
Other Income – Rec.	554	460	726	683	575	596	627	658
PBT bef. EO Exp.	**452**	**3,993**	**5,939**	**6,534**	**5,345**	**6,693**	**8,321**	**9,837**
EO Expense/(Income)	-37	302	379	270	0	0	0	0
PBT after EO Exp.	**489**	**3,690**	**5,561**	**6,264**	**5,345**	**6,693**	**8,321**	**9,837**
Current Tax	82	1,161	1,349	1,488	1,654	2,031	2,539	3,005
Deferred Tax	16.8	31.4	24.3	23.7	30.9	30.3	30.5	30.5
Tax Rate (%)	**407**	**2,530**	**4,211**	**4,776**	**3,691**	**4,662**	**5,782**	**6,832**
Reported PAT	-106	49	157	140	105	414	376	420
PAT Adj. for EO items	**476**	**2,686**	**4,311**	**4,229**	**3,586**	**4,248**	**5,406**	**6,412**
Change (%)	-9.5	464.9	60.5	-1.9	-15.2	18.4	27.3	18.6
Margin (%)	1.1	6.2	9.1	7.8	5.6	6.1	7.2	7.7

Balance Sheet								(INR m)
Y/E March	**FY19**	**FY20**	**FY21**	**FY22**	**FY23**	**FY24E**	**FY25E**	**FY26E**
Equity Share Capital	589	589	589	589	589	589	589	589
Total Reserves	14,257	16,281	20,357	24,463	27,450	31,109	35,809	41,397
Net Worth	**14,846**	**16,869**	**20,946**	**25,052**	**28,039**	**31,698**	**36,397**	**41,986**
Minority Interest	(76)	(29)	128	267	370	785	1,161	1,580
Deferred Liabilities	(931)	(390)	68	531	1,327	1,327	1,327	1,327
Total Loans	21,348	19,871	16,531	18,565	18,463	19,415	15,415	10,815
Capital Employed	**35,187**	**36,322**	**37,672**	**44,415**	**48,199**	**53,224**	**54,300**	**55,707**
Gross Block	41,337	44,722	44,138	47,469	49,667	60,566	68,516	73,816
Less: Accum. Deprn.	7,557	9,598	11,748	13,992	16,275	18,763	21,614	24,704
Net Fixed Assets	**33,780**	**35,124**	**32,390**	**33,477**	**33,392**	**41,802**	**46,902**	**49,112**
Capital WIP	4,166	1,662	2,738	2,425	8,902	8,589	2,889	2,089
Total Investments	**3,780**	**4,583**	**5,922**	**7,677**	**6,421**	**6,421**	**6,421**	**6,421**
Goodwill	723	723	723	723	723	723	723	723
Curr. Assets, Loans, and Adv.	**7,277**	**9,146**	**11,090**	**14,959**	**15,971**	**13,107**	**15,366**	**16,965**
Inventory	3,522	4,806	3,662	5,810	8,416	7,442	7,825	8,638
Account Receivables	1,098	959	545	352	654	737	790	739
Cash and Bank Balance	194	328	3,719	5,729	3,390	1,181	2,757	3,338
Loans and Advances	2,462	3,054	3,164	3,068	3,511	3,748	3,994	4,250
Curr. Liability and Prov.	**14,539**	**14,917**	**15,190**	**14,847**	**17,210**	**17,418**	**18,001**	**19,602**
Account Payables	5,448	5,102	4,368	3,660	5,860	6,069	6,652	8,253
Other Liabilities	8,901	9,610	10,609	10,894	11,098	11,098	11,098	11,098
Provisions	190	205	212	293	252	252	252	252
Net Current Assets	**(7,262)**	**(5,770)**	**(4,100)**	**112**	**(1,239)**	**(4,311)**	**(2,635)**	**(2,637)**
Appl. of Funds	**35,187**	**36,322**	**37,672**	**44,415**	**48,199**	**53,224**	**54,300**	**55,707**

Source: Company, MOFSL estimates

Financials and valuations (standalone)

Ratios

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Basic (INR)								
EPS	**4.0**	**22.8**	**36.6**	**35.9**	**30.5**	**36.1**	**45.9**	**54.5**
Cash EPS	22.0	41.5	55.8	54.9	49.9	57.0	70.0	80.5
BV/Share	126.1	143.3	178.0	212.8	238.2	269.3	309.2	356.7
DPS	0.7	3.1	3.8	5.0	3.8	5.0	6.0	7.0
Payout (%)	13.4	19.6	12.1	13.8	13.3	14.4	13.4	13.2
Valuation (x)								
P/E		34.8	21.7	22.1	26.1	22.0	17.3	14.6
Cash P/E		19.2	14.3	14.5	15.9	13.9	11.4	9.9
P/BV		5.5	4.5	3.7	3.3	3.0	2.6	2.2
EV/Sales		2.5	2.1	1.8	1.5	1.4	1.3	1.1
EV/EBITDA		12.0	9.4	9.1	10.0	8.8	7.3	5.9
EV/t (USD)		87	79	76	73	76	65	57
Dividend Yield (%)		0.4	0.5	0.6	0.5	0.6	0.8	0.9
Return Ratios (%)								
RoE	3.2	16.9	22.8	18.4	13.5	14.2	15.9	16.4
RoCE	6.5	11.7	16.0	15.0	10.2	11.5	13.1	15.4
RoIC	5.9	12.2	17.2	17.4	11.6	12.7	15.1	18.2
Working Capital Ratios								
Asset Turnover (x)	1.2	1.2	1.3	1.2	1.3	1.3	1.4	1.5
Inventory (Days)	29.8	40.2	28.3	39.1	47.6	39.1	38.0	37.8
Debtor (Days)	10	9	5	3	4	4	4	4
Creditor (Days)	46	43	34	25	33	32	32	36
Leverage Ratio (x)								
Current Ratio	0.5	0.6	0.7	1.0	0.9	0.8	0.9	0.9
Interest Coverage Ratio	1.0	2.6	3.7	5.1	4.6	5.5	6	6
Debt/Equity ratio	1.4	1.2	0.8	0.7	0.7	0.6	0.4	0.3

Cash Flow Statement (INR m)

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
OP/(Loss) before Tax	452	3,993	5,939	6,534	5,345	6,693	8,321	9,837
Depreciation	2,110	2,198	2,253	2,235	2,283	2,489	2,850	3,090
Interest and Finance Charges	2,528	2,250	1,920	1,422	1,334	1,346	1,411	1,747
Direct Taxes Paid	(185)	(761)	(871)	(888)	(909)	(2,031)	(2,539)	(3,005)
(Inc.)/Dec. in WC	3,029	(483)	2,060	(1,526)	(1,135)	863	(100)	583
CF from Operations	**7,934**	**7,196**	**11,301**	**7,776**	**6,918**	**9,360**	**9,944**	**12,252**
Others	(332)	(701)	(983)	(976)	(576)	-	-	-
CF from Operations incl. EO	**7,602**	**6,495**	**10,318**	**6,800**	**6,342**	**9,360**	**9,944**	**12,252**
(Inc.)/Dec. in FA	(2,109)	(1,047)	(1,661)	(3,661)	(7,320)	(10,586)	(2,250)	(4,500)
Free Cash Flow	**5,493**	**5,449**	**8,658**	**3,138**	**(978)**	**(1,226)**	**7,694**	**7,752**
(Pur.)/Sale of Investments	1,337	(951)	(2,678)	(3,264)	4,070	-	-	-
Others	-	-	-	274	255	-	-	-
CF from Investments	**(771)**	**(1,997)**	**(4,339)**	**(6,651)**	**(2,995)**	**(10,586)**	**(2,250)**	**(4,500)**
Issue of Shares	-	-	-	-	-	-	-	-
Inc./(Dec.) in Debt	(3,976)	(1,552)	(3,392)	2,042	(431)	952	(4,000)	(4,600)
Interest Paid	(2,674)	(2,489)	(2,130)	(1,401)	(1,505)	(1,346)	(1,411)	(1,747)
Dividend Paid	(111)	(455)	(5)	(443)	(587)	(589)	(706)	(824)
Others	-	-	-	(90)	(136)	-	-	-
CF from Fin. Activity	**(6,761)**	**(4,496)**	**(5,526)**	**108**	**(2,658)**	**(983)**	**(6,118)**	**(7,171)**
Inc./Dec. in Cash	**70**	**2**	**453**	**257**	**689**	**(2,209)**	**1,576**	**581**
Opening Balance	125	29	30	5,472	5,729	3,390	1,181	2,757
Closing Balance	**194**	**30**	**484**	**5,729**	**6,418**	**1,181**	**2,757**	**3,338**

Source: Company, MOFSL estimates

Explanation of Investment Rating	
Investment Rating	**Expected return (over 12-month)**
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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