

JK Lakshmi Cement

Estimate change	↔
TP change	↔
Rating change	↔

CMP: INR886 TP: INR1,030 (+16%) BUY

Strong profitability; announced capacity expansion plan...

...targets to increase grinding capacity to 30mtpa by FY30

Bloomberg	JKLC IN
Equity Shares (m)	118
M.Cap.(INRb)/(USDb)	104.3 / 1.3
52-Week Range (INR)	1000 / 607
1, 6, 12 Rel. Per (%)	3/26/-5
12M Avg Val (INR M)	252

Financial Snapshot (INR b)

Y/E Mar	FY24E	FY25E	FY26E
Sales	68.9	74.6	83.2
EBITDA	10.5	12.2	14.2
Adj. PAT	5.0	6.1	7.4
EBITDA Margin (%)	15.2	16.4	17.1
Adj. EPS (INR)	36.9	46.4	54.8
EPS Gr. (%)	21.0	25.9	18.2
BV/Sh. (INR)	270	311	358

Ratios

Net D:E	0.4	0.4	0.4
RoE (%)	14.5	16.0	16.4
RoCE (%)	12.4	13.0	13.2
Payout (%)	14.0	13.5	13.4

Valuations

P/E (x)	24.1	19.1	16.2
P/BV (x)	3.3	2.9	2.5
EV/EBITDA(x)	9.3	8.0	6.5
EV/ton (USD)	85	73	63
Div. Yield (%)	0.6	0.7	0.8
FCF Yield (%)	-1.0	1.8	-1.9

Shareholding pattern (%)

As On	Dec-23	Sep-23	Dec-22
Promoter	46.3	46.3	46.3
DII	27.6	27.6	25.6
FII	10.8	10.5	13.8
Others	15.3	13.9	14.3

FII Includes depository receipts

- JK Lakshmi Cement's (JKLC) 3QFY24 operating performance was above our estimates, with consolidated EBITDA at INR3b (up 63% YoY; 18% above our estimate). EBITDA/t increased 52% YoY to INR1,021 (est. INR909). OPM was up 6pp YoY to ~18%. Adj. PAT grew 82% YoY to INR1.4b (est. INR1.2b).
- Management indicated that cement volume growth (consolidated) should be at ~10% YoY in FY24 (vs. earlier estimated ~12-15%). The Eastern region continues to see higher growth, driven by the IHB segment. Cement prices were soft in both Jan-Feb'24. Management believes that the company's volume growth would surpass that of the industry's in FY25, aided by expansion in Udaipur cement works (UCWL), a subsidiary of the company. Further, it announced the next phase of expansion in the east (including north-east) and aims to reach 30mtpa by FY30.
- We raised EBITDA estimates by 6% for FY24 (given the outperformance) and 2-3% for FY25-26. JKLC is trading at 8x/6.5x FY25E/FY26E EV/EBITDA. JKLC is a cost-efficient player with presence in favorable regions (Gujarat and North). We value JKLC at 9x FY26E EV/EBITDA and arrive at a TP of INR1,030.

Consolidated volume grew 8% YoY and realization was up 1%

- Consolidated revenue/EBITDA/Adj. PAT stood at INR17b/INR3b/INR1.4b, (up 9%/63%/82% YoY and 7%/18%/18% above our estimate) in 3QFY24. Sales volumes were up 8% YoY to 2.96mt (up 5% vs. our estimate). Realization was up 1% YoY to INR5,753/t (up 2% vs. our estimate).
- Opex/t was down 5% YoY, led by a decline in variable cost/other expenses (9%/5%). Freight cost/t rose 1% YoY and employee costs/t was up 6%. OPM was up 6pp YoY to ~18% and EBITDA/t rose 52% YoY to INR1,021 in 3QFY24.
- Depreciation/finance cost increased 16%/10% YoY. Other income was up 17% YoY. Adjusted PAT was up 82% YoY to INR1.4b (est. INR1.2b).
- In 9MFY24, revenue grew 9% YoY to INR50b, led by volume growth (up 9% YoY), while realization remained flat. EBITDA grew 18% YoY to INR7.2b, backed by a decline in opex/t, down 1% YoY. EBITDA/t was up 9% YoY to INR791 and OPM was up 1pp YoY to 14.3%.

Highlights from the management commentary

- Extreme cold, fog, restrictions on construction adversely impacted volume in the northern market. However, the eastern region continues to see better growth.
- Average fuel cost stood at INR1.75/Kcal vs. INR2.04/Kcal in 2QFY24. It is expected to decline up to INR1.70/Kcal in 4QFY24.
- Green energy share stood at ~44%. AFR project at the Sirohi plant achieved TSR of 11% in Jan'24 and it will further increase to ~13-14% in the upcoming months.

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Valuation and view

- JKLC reported strong performance during the quarter, led by higher-than-estimated volume and realization. Further, the company announced aggressive capacity expansion plans to increase its grinding capacity to 30mtpa by FY30 from its current capacity of 14mtpa.
- The stock trades at 8x/6.5x FY25E/FY26x EV/EBITDA. We value JKLC at 9x FY26E EV/EBITDA to arrive at our TP of INR1,030. We reiterate our BUY rating on the stock.

Quarterly performance (consolidated)

Y/E March	(INR b)											
	FY23				FY24				FY23	FY24E	FY24	Var.
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE			3QE	(%)
Sales Volumes (mt)	3.03	2.53	2.75	3.39	3.21	2.88	2.96	3.45	11.70	12.49	2.82	5
YoY Change (%)	7.3	2.4	5.4	2.9	5.7	13.8	7.6	1.8	5	7	(2)	
Net Sales	16.5	13.7	15.6	18.6	17.3	15.7	17.0	18.8	64.5	68.9	15.9	7
YoY Change (%)	24.8	13.6	21.5	16.4	4.6	14.6	9.0	1.1	19.0	6.8	1.9	
EBITDA	2.6	1.6	1.9	2.3	2.0	2.2	3.0	3.3	8.4	10.5	2.6	18
Margin (%)	15.5	11.9	11.9	12.5	11.3	13.8	17.7	17.5	13.0	15.2	16.1	
Depreciation	0.6	0.6	0.6	0.6	0.6	0.6	0.7	0.6	2.3	2.4	0.7	(3)
Interest	0.4	0.3	0.4	0.3	0.3	0.3	0.4	0.4	1.3	1.4	0.3	15
Other Income	0.1	0.2	0.1	0.2	0.1	0.1	0.2	0.2	0.6	0.6	0.2	4
PBT before EO expense	1.7	0.9	1.1	1.6	1.2	1.4	2.1	2.5	5.3	7.2	1.7	25
Extra-Ord. expense	-	-	-	-	-	-	(0.1)	-	-	(0.1)	-	
PBT	1.7	0.9	1.1	1.6	1.2	1.4	2.2	2.5	5.3	7.3	1.7	31
Tax	0.6	0.3	0.3	0.5	0.4	0.5	0.7	0.6	1.7	2.2	0.5	
Prior period tax adj.	-	-	-	-	-	-	-	-	-	-	-	
Rate (%)	33.1	33.8	27.9	29.0	32.7	32.0	32.7	25.4	30.9	30.1	30.0	
Reported PAT	1.2	0.6	0.8	1.1	0.8	1.0	1.5	1.8	3.7	5.1	1.2	26
Adj. PAT	1.2	0.6	0.8	1.1	0.8	1.0	1.4	1.8	3.7	5.0	1.2	18
YoY Change (%)	(15.5)	(29.2)	17.7	(46.7)	(30.7)	55.2	82.3	60.7	(26.9)	35.8	54.3	
Per tonne analysis (INR)												
Net realization	5,456	5,431	5,677	5,496	5,399	5,471	5,753	5,455	5,514	5,515	5,641	2
RM Cost	1,009	1,077	940	1,380	1,312	1,191	1,066	1,315	1,115	1,227	1,213	(12)
Employee Expenses	336	369	350	284	338	363	370	323	331	347	375	(1)
Power, Oil, and Fuel	1,498	1,656	1,883	1,484	1,428	1,494	1,492	1,237	1,618	1,406	1,434	4
Freight and Handling Outward	1,082	1,019	1,108	1,086	1,071	1,039	1,117	1,057	1,075	1,071	1,060	5
Other Expenses	684	663	723	576	637	630	687	568	657	628	649	6
Total Expenses	4,608	4,783	5,004	4,809	4,786	4,716	4,732	4,499	4,797	4,678	4,732	0
EBITDA	847	648	673	687	612	755	1,021	956	717	837	909	12

Source: Company, MOFSL

**Highlights from the management commentary****Demand and pricing**

- Clinker/cement capacity utilization (standalone) stood at 105%/79% in 3QFY24. Cement volume growth (consolidated) should be at ~10% YoY in FY24 (earlier guidance of 12-15%). Extreme cold, fog, restrictions on construction adversely impacted volume in the northern market. The Eastern region continues to see higher growth, driven by the IHB segment.
- It believes the company's volume growth would surpass that of the industry's, aided by commissioning of grinding capacity in UCWL by Mar'24-end (clinker was already commissioned in 2QFY24). Industry growth is estimated at ~8% in FY25; however, JKCE is expected to register double-digit growth (consolidated).
- Cement prices were soft in Jan'24 and in Feb'24 as well, varying for different markets.

Operational highlights

- Standalone sales volume was up 2% YoY at 2.36mt. Consolidated sales volume (after eliminating inter-company sales) grew 8% YoY to 2.96mt.
- Non-cement revenue stood at INR1.34b vs. INR1.16b in 3QFY23. RMC revenue stood at INR670m vs. INR560m in 3QFY23. Margin stood at ~5%.
- Average fuel cost stood at INR1.78/Kcal vs. INR2.04/Kcal in 2QFY24. It is expected to decline up to INR1.7/Kcal in 4QFY24. Its green energy share stood at ~44%.
- Blended cement share stood at ~65%, while trade sales share stood at ~58%. Lead distance was 377km (declined from 387km in 2QFY24).
- Premium products sales stood at ~25% (of trade volume) in 2QFY24 vs. 23% in 2QFY24.

Capacity expansion and capex plans

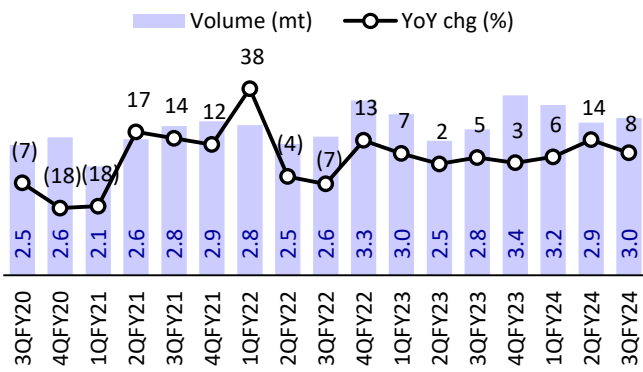
- Grinding capacity of 2.5mtpa at Udaipur cement works (UCWL), a subsidiary of the company is likely to be commissioned by Mar'24-end. Further, brownfield expansion of 1.35mtpa grinding capacity at its GU in Surat, Gujarat is as per schedule.
- It announced an expansion of 4.6mtpa in phases, which includes – 1) brownfield clinker/cement expansion of 2.3mtpa/1.2mtpa at Durg, Chhattisgarh; and 2) greenfield split location grinding units with an aggregate capacity of 3.4mtpa at three different locations Prayagraj, Uttar Pradesh, Madhubani, Bihar, and Patratu, Jharkhand. This will be funded through a mix of debt (up to INR17.5b) and internal accruals. In Phase – I, it plans to commission grinding capacity of 1.2mtpa at Durg and Bihar (each) in the next two years.
- It is setting up a railway siding at its Durg, Chhattisgarh Plant (in phases) at a capex of INR3.25b, which will be funded through a mix of debt and internal accruals. Phase – I is likely to be completed by Sep'24 and Phase – II is expected by Mar'26.
- The board also approved the acquisition of an 85% equity shareholding in Agrani Cement, which, along with its subsidiary, holds rights to limestone reserves of 335mt in Assam. The acquisition cost amounts to INR3.25b, and it is expected to be completed by Mar'24-end. In Phase – I, the company has plans to set up 1mtpa/1.5mtpa clinker/cement capacity.
- Capex stood at INR2.5b in standalone and INR4.5b in UCWL. Estimated capex for capacity expansion over the next two years amounts to INR18b (including Surat GU). Additionally, capex is projected at INR40b for the next three years (including 4.2mtpa expansion at Durg and 1.5mtpa in the north-east).

Other highlights

- Standalone net debt stood at INR500m, while consolidated net debt stood at INR11.4b. Peak net debt (consolidated) is estimated at INR26b, considering the announced expansion plans. Also, the company aims to maintain a net debt to EBITDA ratio of less than 2.5x.
- AFR project at the Sirohi plant achieved TSR of ~11% in Jan'24 and it will further increase to ~13-14% in the upcoming months. In the next phase, it targets to increase this share to ~16-17% by FY25-end.

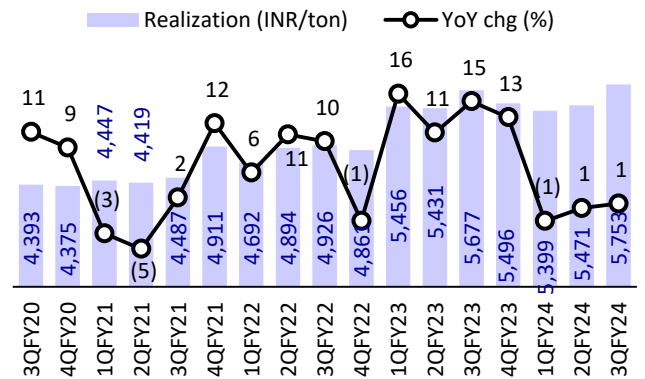
Story in charts

Exhibit 1: Sales volume (consolidated) up 8% YoY



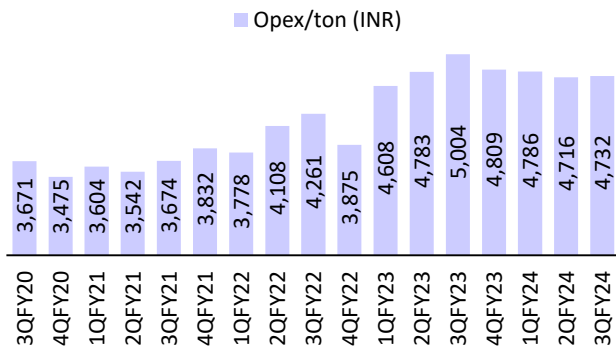
Source: Company, MOFSL

Exhibit 2: Blended realization was up ~1% YoY



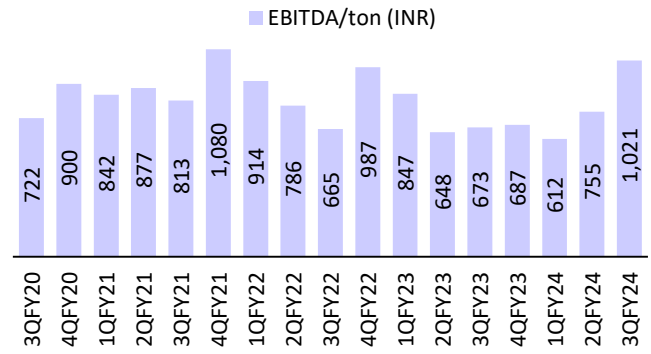
Source: Company, MOFSL

Exhibit 3: OPEX/t declined 5% YoY



Source: Company, MOFSL

Exhibit 4: EBITDA/t was up 52% YoY



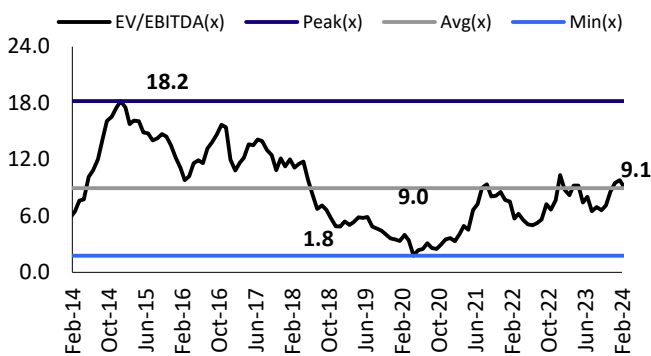
Source: Company, MOFSL

Exhibit 5: Key performance indicators – per ton analysis

INR/t	3QFY24	3QFY23	YoY (%)	1QFY24	QoQ (%)
Net realization	5,753	5,677	1.3	5,471	5.2
RM Cost	1,066	940	13.4	1,191	(10.5)
Employee Expenses	370	350	5.7	363	2.1
Power, Oil, and Fuel	1,492	1,883	(20.7)	1,494	(0.1)
Freight and Handling Outward	1,117	1,108	0.8	1,039	7.5
Other Expenses	687	723	(5.0)	630	9.0
Total Expenses	4,732	5,004	(5.4)	4,716	0.3
EBITDA	1,021	673	51.6	755	35.2

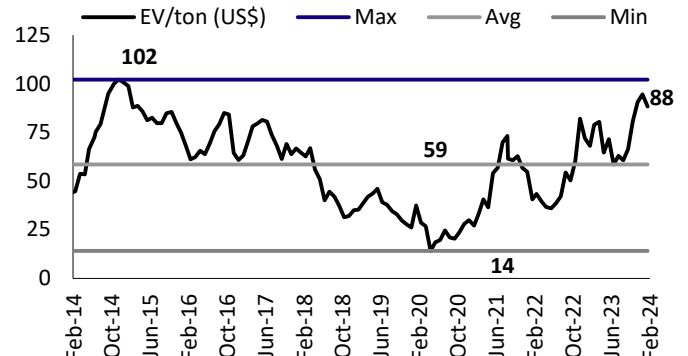
Source: Company, MOFSL

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	68,895	74,554	83,166
Change (%)	15.2	1.1	8.3	14.6	19.0	6.8	8.2	11.6
EBITDA	4,536	7,981	9,386	9,507	8,387	10,453	12,247	14,188
Margin (%)	10.5	18.3	19.9	17.5	13.0	15.2	16.4	17.1
Depreciation	2,110	2,198	2,253	2,235	2,283	2,410	2,721	2,799
EBIT	2,426	5,782	7,133	7,272	6,104	8,043	9,526	11,390
Int. and Finance Charges	2,528	2,250	1,920	1,422	1,334	1,425	1,383	1,475
Other Income – Rec.	554	460	726	683	575	603	627	658
PBT bef. EO Exp.	452	3,993	5,939	6,534	5,345	7,221	8,770	10,573
EO Expense/(Income)	-37	302	379	270	0	-89	0	0
PBT after EO Exp.	489	3,690	5,561	6,264	5,345	7,310	8,770	10,573
Total Tax	82	1,161	1,349	1,488	1,654	2,199	2,655	3,188
Tax Rate (%)	16.8	31.4	24.3	23.7	30.9	30.1	30.3	30.2
Reported PAT	407	2,530	4,211	4,776	3,691	5,111	6,116	7,384
Minority Interest	-106	49	157	140	105	682	652	929
PAT Adj. for EO items and MI	476	2,686	4,311	4,229	3,586	4,340	5,463	6,455
Change (%)	-9.5	464.9	60.5	-1.9	-15.2	21.0	25.9	18.2
Margin (%)	1.1	6.2	9.1	7.8	5.6	6.3	7.3	7.8

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	31,201	35,959	41,590
Net Worth	14,846	16,869	20,946	25,052	28,039	31,790	36,547	42,179
Minority Interest	(76)	(29)	128	267	370	1,052	1,704	2,633
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	20,915	27,815
Capital Employed	35,187	36,322	37,672	44,415	48,199	53,584	60,493	73,953
Gross Block	41,337	44,722	44,138	47,469	49,667	60,066	69,316	73,566
Less: Accum. Deprn.	7,557	9,598	11,748	13,992	16,275	18,706	21,450	24,271
Net Fixed Assets	33,780	35,124	32,390	33,477	33,392	41,359	47,866	49,295
Capital WIP	4,166	1,662	2,738	2,425	8,902	9,089	8,089	18,089
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	13,274	15,242	18,945
Inventory	3,522	4,806	3,662	5,810	8,416	7,392	7,777	8,623
Account Receivables	1,098	959	545	352	654	731	784	737
Cash and Bank Balance	194	328	3,719	5,729	3,390	1,403	2,687	5,336
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	17,282	17,848	19,520
Account Payables	5,448	5,102	4,368	3,660	5,860	5,932	6,498	8,171
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)	(4,008)	(2,606)	(575)
Appl. of Funds	35,187	36,322	37,672	44,415	48,199	53,584	60,493	73,953

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	36.9	46.4	54.8
Cash EPS	22.0	41.5	55.8	54.9	49.9	57.3	69.5	78.6
BV/Share	126.1	143.3	178.0	212.8	238.2	270.1	310.5	358.4
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	14.0	13.5	13.4
Valuation (x)								
P/E		38.9	24.2	24.7	29.1	24.1	19.1	16.2
Cash P/E		21.4	15.9	16.2	17.8	15.5	12.8	11.3
P/BV		6.2	5.0	4.2	3.7	3.3	2.9	2.5
EV/Sales		2.7	2.3	2.0	1.6	1.6	1.5	1.2
EV/EBITDA		13.4	10.5	10.2	11.3	9.3	8.0	6.5
EV/t (USD)		97	89	85	83	85	73	63
Dividend Yield (%)		0.4	0.4	0.6	0.4	0.6	0.7	0.8
Return Ratios (%)								
RoE	3.2	16.9	22.8	18.4	13.5	14.5	16.0	16.4
RoCE	6.5	11.7	16.0	15.0	10.2	12.4	13.0	13.2
RoIC	5.9	12.2	17.2	17.4	11.6	13.8	14.8	15.2
Working Capital Ratios								
Asset Turnover (x)	1.2	1.2	1.3	1.2	1.3	1.3	1.2	1.1
Inventory (Days)	29.8	40.2	28.3	39.1	47.6	39.2	38.1	37.8
Debtor (Days)	10	9	5	3	4	4	4	4
Creditor (Days)	46	43	34	25	33	31	32	36
Leverage Ratio (x)								
Current Ratio	0.5	0.6	0.7	1.0	0.9	0.8	0.9	1.0
Interest Coverage Ratio	1.0	2.6	3.7	5.1	4.6	5.6	7	8
Debt/Equity ratio	1.4	1.2	0.8	0.7	0.7	0.6	0.6	0.7

Cash Flow Statement

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
(INR m)								
OP/(Loss) before Tax	452	3,993	5,939	6,534	5,345	7,132	8,770	10,572
Depreciation	2,110	2,198	2,253	2,235	2,283	2,432	2,743	2,821
Interest and Finance Charges	2,528	2,250	1,920	1,422	1,334	1,425	1,383	1,475
Direct Taxes Paid	(185)	(761)	(871)	(888)	(909)	(2,199)	(2,655)	(3,188)
(Inc.)/Dec. in WC	3,029	(483)	2,060	(1,526)	(1,135)	783	(118)	617
CF from Operations	7,934	7,196	11,301	7,776	6,918	9,572	10,123	12,297
Others	(332)	(701)	(983)	(976)	(576)	-	-	-
CF from Operations incl. EO	7,602	6,495	10,318	6,800	6,342	9,572	10,123	12,297
(Inc.)/Dec. in FA	(2,109)	(1,047)	(1,661)	(3,661)	(7,320)	(10,586)	(8,250)	(14,250)
Free Cash Flow	5,493	5,449	8,658	3,138	(978)	(1,014)	1,873	(1,953)
(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)	(8,250)	(14,250)
Issue of Shares	-	-	-	-	-	-	-	-
Inc./(Dec.) in Debt	(3,976)	(1,552)	(3,392)	2,042	(431)	952	1,500	6,900
Interest Paid	(2,674)	(2,489)	(2,130)	(1,401)	(1,505)	(1,425)	(1,383)	(1,475)
Dividend Paid	(111)	(455)	(5)	(443)	(587)	(589)	(706)	(824)
Others	-	-	-	(90)	(136)	89	-	-
CF from Fin. Activity	(6,761)	(4,496)	(5,526)	108	(2,658)	(972)	(589)	4,601
Inc./Dec. in Cash	70	2	453	257	689	(1,987)	1,285	2,648
Opening Balance	125	29	30	5,472	5,729	3,390	1,403	2,687
Closing Balance	194	30	484	5,729	6,418	1,403	2,687	5,336

Source: Company, MOFSL estimates

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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
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