AXIS SECURITIES

Result Update
2nd Aug, 2024

JK Lakshmi Cement Limited
Cement

BUY
Target Price
950

Mixed Operating Performance; Retain BUY

Est. Vs. Actual for Q1FY25: Revenue – MISS; EBITDA Margin – BEAT; PAT – BEAT

Change in Estimates post Q1FY25 (Abs)

FY25E/FY26E: Revenue: -6%/-7%; **EBITDA:** -7%/-6%; **PAT:** 2%/-8%

Recommendation Rationale

- **Capacity expansion to support volume growth**: The establishment of a 1.35 mtpa grinding unit in Surat, with a capital expenditure of Rs 220 Cr funded through a combination of internal accruals and debt, is progressing well and is expected to commence in phases during FY25-FY26. Additionally, the company plans a capacity expansion of 4.6 mtpa for Cement Grinding and 2.3 mtpa for Clinker at a total capital cost of Rs 2,500 Cr (USD 65/Tonne), to be commissioned in phases over FY26-27. These expansions are anticipated to enhance market share and revenue growth. We project the company will achieve a volume growth CAGR of 7% over FY24-26E.
- **Working on many levers to improve EBITDA/tonne:** The company plans to focus on several key initiatives to enhance performance, including optimizing geo-mix, increasing production and sales of blended cement, raising the proportion of trade sales, and boosting premium and value-added products. Additionally, it aims to improve logistic efficiency and utilize more renewable power and Alternative Fuels and Raw Materials (AFR). The company expects to achieve cost savings of Rs 75-100 per tonne. We project EBITDA/tonne growth at a 14% CAGR over FY23-26E, reaching Rs 1,100/tonne, driven by stable realizations, higher volume, and cost-saving measures.
- **Robust cement demand in the country:** Cement demand in the country is anticipated to remain strong, driven by increased capital spending by the central government on infrastructure projects such as roads, railways, and housing, along with robust real estate demand. Ongoing investment in infrastructure development is expected to further boost cement demand. The industry is projected to grow at a CAGR of 8-9% during FY23-FY26E.

Sector Outlook: Positive

Company Outlook & Guidance: Given the government's emphasis on infrastructure development and increased budgetary allocation for housing and road projects, the outlook for the cement sector is favourable for the coming year. The management has guided for a 7-9% volume growth on a consolidated basis. However, pricing remains under pressure and will be influenced by market dynamics.

Current Valuation: 9.5xFY26E EV/EBITDA (Earlier Valuation: 9x FY26 EV/EBITDA)

Current TP: Rs 950/share (Earlier TP: Rs 950/share)

Recommendation: We **maintain** our **BUY** recommendation on the stock.

Alternative BUY Ideas from our Sector Coverage

UltraTech Cement Ltd (TP – 12,400/share), JK Cement (TP-4,920share), Dalmia Bharat (TP-2120/share), Ambuja Cements Ltd (750/share).

Financial Performance

JKLC reported a mixed set of results for the period. Revenue and volume decreased by 12% and 8% respectively, falling below expectations. However, EBITDA and PAT exceeded expectations, growing by 10% and 109% YoY, respectively, due to lower costs and increased other income. EBITDA margins improved to 12.8%, up from 10.3% YoY, and slightly above our estimate of 12.4%. The company reported a profit of Rs 156 Cr, marking a 109% increase YoY and a 10% increase QoQ.

In the quarter, JKLC's volume was 2.33 million tonnes per annum (mntpa), reflecting an 8% YoY decrease. The company's EBITDA per tonne was Rs 793, up 20% YoY. Blended realization per tonne was Rs 6,210, down 4% both QoQ and YoY. Additionally, the cost per tonne decreased by 6% YoY to Rs 5,417.

Outlook: Given JKLC's strong positioning in North, West, and East India, coupled with initiatives such as increasing sales of premium and value-added products, higher blending ratios, improved trade sales, greater use of green energy, and direct dispatches, the company is well-positioned to enhance its topline and margins. We anticipate the company will achieve a CAGR of 7% in volume, 6% in revenue, 20% in EBITDA, and 22% in PAT over FY23-FY26E. Cement pricing remains a crucial factor to monitor.

Valuation & Recommendation

The stock is currently trading at 11x/9x EV/EBITDA of FY25E/FY26E. We maintain our **BUY** rating on the stock with a TP of Rs 950/share, implying an upside potential of 10% from the CMP.

Key Financials (Standalone)

(Rs Cr)	Q1FY25	QoQ (%)	YoY (%)	Axis Est.	Variance
Net Sales	1,445	-12	-12	1610	-10%
EBITDA	185	-33	10	200	-8%
EBITDA Margin	12.8%	(390bps)	250bps	12.4%	40bps
Net Profit	156	10	109	93	68%
EPS (Rs)	13.3	10	109	7.9	68%

Source: Company, Axis Securities Research

(CMP as of 1st Aug, 2024)

CMP (Rs)	862
Upside /Downside (%)	10
High/Low (Rs)	1000/623
Market cap (Cr)	10,159
Avg. daily vol. (6m)Shrs.	2,75,000
No. of shares (Cr)	11.8

Shareholding (%)

	Dec-23	Mar-24	June-24
Promoter	46.3	46.3	46.3
FIIs	10.8	11.5	11.3
MFs / UTI	22.8	23.0	20.2
Banks / FIs	0.0	0.0	0.0
Others	20.0	19.2	22.1

Financial & Valuations

Y/E Mar (Rs Cr)	FY24	FY25E	FY26E
Net Sales	6,320	6,312	6,994
EBITDA	864	978	1,211
Net Profit	411	541	605
EPS (Rs)	35	46	51
PER (x)	24	19	17
P/BV (x)	3.3	2.8	2.4
EV/EBITDA (x)	12	11	9
ROE (%)	14	16	16

Change in Estimates (%)

Y/E Mar	FY25E	FY26E
Sales	-6%	-7%
EBITDA	-7%	-6%
PAT	2%	-8%

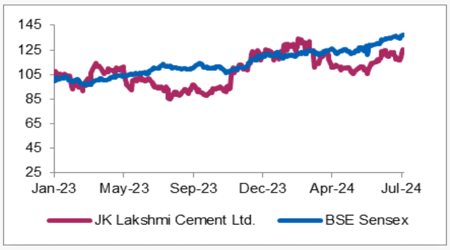
ESG disclosure Score**

Environmental Disclosure	41.5
Social Disclosure Score	39.4
Governance Disclosure	85.0
Total ESG Disclosure Score	55.0
Sector Average	50..0

Source: Bloomberg, Scale: 0.1-100

**Note: This score measures the amount of ESG data a company reports publicly and does not measure the company's performance on any data point. All scores are based on 2022 disclosures

Relative performance



Source: Ace Equity

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Key Concall Highlights

- **Capacity Expansion:** The development of a 1.35 mtpa grinding unit in Surat, with a capital expenditure of Rs 220 Cr funded through internal accruals and debt, is progressing as planned and is expected to commence in phases over FY25-FY26. Additionally, the company is in the process of acquiring land in North-East India for a new plant with a 2 mtpa capacity and will proceed with obtaining the necessary permissions thereafter.

- **Capacity Expansion Plans:** The company is significantly expanding its cement production capabilities with several key projects. At its integrated Cement Plant in Durg, Chhattisgarh, it is adding a new Clinker Line with a capacity of 2.3 MTPA. Additionally, four new Cement Grinding Units totalling 4.6 MTPA will be established at the Durg site. There are also plans for three Split Location Cement Grinding Units, with a combined capacity of 3.6 MTPA, located in Prayagraj (Uttar Pradesh), Madhubani (Bihar), and Patratu (Jharkhand). The total cost for these expansions is estimated at Rs 2,500 Cr, to be financed with Rs 1,750 Cr from term loans and the remainder from internal accruals. Additionally, a Railway Siding is being constructed at the Durg Cement Plant at a cost of Rs 325 Cr, with Rs 225 Cr funded through debt and the balance from internal accruals. These projects are scheduled to be commissioned in two phases.

  Phase I: - Clinker line of 2.3 MTPA and 2 GUs of 1.2 MTPA each by Mar’26

  PhaseII:- 2 GUs of 1.2 MTPA and 1.0 MTPA by Mar’27

- **Volume:** During the quarter, the company reported an 8% decline in volume. Blended cement sales accounted for 64% of total sales, with Ordinary Portland Cement (OPC) making up the remaining 36%. The trade-to-non-trade sales ratio was 54% to 46%, a shift from the previous 56% to 44%. Premium cement comprised 25% of total trade sales. The company aims to increase blended cement sales to 70%-75% of total sales and exceed the industry's growth rate. It has ample limestone reserves across its mines, expected to last 30-50 years for clinker production. Regionally, performance in North and West India was weak due to lower realizations and subdued demand, while the East region performed relatively better.

- **In the quarter, sales of Value-Added Products (VAP) were Rs 132 Cr**, remaining relatively flat YoY, with an EBITDA margin of 4-5%. Revenue from Ready-Mix Concrete (RMC) was Rs 70 Cr. The company aims to increase VAP revenue to Rs 1,000 Cr over the next three years.

- **Pricing:** Cement prices have decreased by 1-2% compared to the average price in Q1FY25. The company anticipates a potential rise in prices, though this will depend on market dynamics. Pricing remains subdued in North and West India, while it is more favorable in the East. Additionally, higher clinker sales have contributed to lower realizations.

- **Power/Fuel:** The cost per Kcal was Rs 1.63 in the current quarter, compared to Rs 1.68 in Q4FY24, and is expected to remain stable. The company is progressing with a project to enhance its Total Suspended Solids Recovery (TSR) from 4% to 16% at its Sirohi Cement Plant as part of its green initiatives. The Waste Heat Recovery System (WHRS) with a capacity of 3.5 MW at Sirohi is now operational. Additionally, the company has secured a 40 MW solar power supply for its integrated cement plant in Durg, Chhattisgarh, increasing the share of renewable power at the Durg plant from 36% to 80% starting Oct’23.

- **Freight:** In the quarter, lead distance decreased to 372 km, down by 12 km YoY. Freight cost per tonne was reduced by 6% YoY and 3% QoQ, standing at Rs 1,224 per tonne due to improved route management and shorter lead distances. The company transported 90% of its volume by road and the remaining 10% by rail.

- **Capex:** The company has projected a Capex of Rs 1,200 Cr for FY25 and Rs 1,000 Cr for FY26. This allocation includes the construction of a Waste Heat Recovery System (WHRS) plant at Sirohi, an AAC block at Alwar, a rail siding and conveyor belt at Durg, as well as capex for new expansions and maintenance. In Q1FY25, the company incurred a Capex of Rs 90 Cr. Total capital expenditure, including the planned expansion in the North-East, is expected to reach Rs 4,000 Cr by FY27-28.

- **Debt/Cash:** The current gross debt stands at Rs 700 Cr, with cash and cash equivalents amounting to Rs 375 Cr. The net debt on a standalone basis is Rs 325 Cr. To finance the announced capex for FY25-FY26, the company plans to raise additional debt in the range of Rs 1,700-1,800 Cr.

- **Other Expenses:** On a per-tonne basis, other expenses declined by 3% QoQ to Rs 729/tonne.

- **Consolidation of UCWL & Other Group Company:** The company has decided to consolidate and amalgamate its subsidiary, Udaipur Cement Works Ltd (UCWL), along with other group companies, to achieve better operational and strategic synergies. The appointed date for this consolidation is set for April 1, 2024.

- **Higher Other Income:** The company reported higher other income during the quarter owing to stake sales by promoters in the UCWL.

Key Risks to Our Estimates and TP

- Lower realization and demand in its key market and delay in capacity expansion.
- Higher input costs may impact margins.

Change in Estimates

	New		Old		% Change	
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Sales	6,312	6,994	6695	7487	-6%	-7%
EBITDA	978	1,211	1048	1291	-7%	-6%
PAT	541	605	532	658	2%	-8%

Source: Company, Axis Securities Research

Result Review Q1FY25

(Rs Cr)	Quarterly Performance				
	Q1FY25	Q4FY24	Q1FY24	% Chg qoq	% Chg yoy
Net sales	1445	1648	1,633	-12%	-12%
Expenditure	1260	1372	1,466	-8%	-14%
EBITDA	185	275	168	-33%	10%
Other income	92	18	14	412%	565%
Interest	19	21	23	-9%	-17%
Depreciation	47	49	47	-5%	0%
PBT	211	223	112	-6%	89%
Tax	55	81	37	-33%	49%
Adjusted PAT	156	142	75	10%	109%
EBITDA margin (%)	12.8%	16.7%	10.3%	(390bps)	250bps
EPS (Rs)	13.3	12.1	6.4	10%	109%

Source: Company, Axis Securities Research

Volume/ Realization / Cost Analyses

	Quarterly Performance				
	Q1FY25	Q4FY24	Q1FY24	% Chg qoq	% Chg yoy
Volume/mtpa	2.33	2.55	2.53	-9%	-8%
Realisation/tonne (Rs)	6210	6459	6,453	-4%	-4%
Cost/tonne (Rs)	5417	5380	5791	1%	-6%
Raw material/tonne (Rs)	1945	1787	1,916	9%	1%
Staff Cost/tonne (Rs)	376	333	385	13%	-2%
Power & Fuel/tonne (Rs)	1143	1254	1,465	-9%	-22%
Freight/tonne (Rs)	1224	1257	1,306	-3%	-6%
Other Expenses /tonne (Rs)	729	748	718	-3%	2%
EBITDA/tonne (Rs)	793	1080	662	-27%	20%

Source: Company, Axis Securities Research

Financials (Standalone)

Profit & Loss

(Rs Cr)

Y/E March	FY23	FY24	FY25E	FY26E
Net sales	**6071**	**6320**	**6312**	**6994**
Other operating income	0	0	0	0
Total income	**6071**	**6320**	**6312**	**6994**
Raw Material	1582	1767	1839	1986
Power & Fuel	1544	1366	1149	1241
Freight & Forwarding	1209	1249	1229	1328
Employee benefit expenses	349	374	377	414
Other Expenses	683	700	740	814
EBITDA	**704**	**864**	**978**	**1211**
Other income	62	64	137	59
PBIDT	**767**	**928**	**1115**	**1271**
Depreciation	194	195	206	263
Interest & Fin Chg.	92	87	102	105
E/o income / (Expense)	0	0	0	0
Pre-tax profit	**481**	**646**	**807**	**903**
Tax provision	151	234	266	298
Minority Interests				
Associates	0	0	0	0
RPAT	**331**	**411**	**541**	**605**
Other Comprehensive Income	0	0	0	0
APAT after Comprehensive Income	**331**	**411**	**541**	**605**

Source: Company, Axis Securities Research

Balance Sheet

(Rs Cr)

Y/E March	FY23	FY24	FY25E	FY26E
Total assets	5211	5908	6544	7241
Net Block	2766	3005	3746	4392
CWIP	65	374	374	374
Investments	414	1181	1181	1181
Wkg. cap. (excl cash)	249	335	283	307
Cash / Bank balance	335	229	311	302
Misc. Assets	138	78	65	69
Capital employed	**5211**	**5908**	**6544**	**7241**
Equity capital	59	59	59	59
Reserves	2665	3023	3519	4080
Minority Interests	0	0	0	0
Borrowings	995	892	1042	1142
DefTax Liabilities	0	0	0	0
Other Liabilities and Provision	1493	1935	1924	1960

Source: Company, Axis Securities Research

Cash Flow (Rs Cr)

Y/E March	FY23	FY24	FY25E	FY26E
Profit before tax	481	646	807	903
Depreciation	194	195	206	263
Interest Expenses	92	87	102	105
Non-operating/ EO item	-51	-60	-137	-59
Change in W/C	-164	65	51	-24
Income Tax	-91	-112	-266	-298
Operating Cash Flow	461	821	763	890
Capital Expenditure	-147	-402	-947	-909
Investments	30	206	125	0
Others	26	35	137	59
Investing Cash Flow	-91	-161	-685	-850
Borrowings	-188	-127	150	100
Interest Expenses	-87	-84	-102	-105
Dividend paid	-59	-67	-44	-44
Financing Cash Flow	-334	-279	4	-49
Change in Cash	36	382	82	-9
Opening Cash	67	139	89	171
Closing Cash	139	89	171	162

Source: Company, Axis Securities Research

Ratio Analysis (%)

Y/E March	FY23	FY24	FY25E	FY26E
Operational Ratios				
Gross profit margin	28.6%	30.7%	33.2%	34.9%
EBITDA margin	11.6%	13.7%	15.5%	17.3%
PAT margin	5.4%	6.5%	8.6%	8.6%
Depreciation / G. block	5%	5%	4%	4%
Growth Indicator				
Sales growth	20%	4%	0%	11%
Volume growth	4%	1%	5%	9%
EBITDA growth	-12%	23%	13%	24%
PAT growth	-26%	24%	31%	12%
Efficiency Ratios				
Sales/Gross block (x)	1.5	1.5	1.2	1.1
Sales/Net block(x)	2.2	2.1	1.7	1.6
Working capital/Sales (%)	0.19	0.15	0.12	0.11
Valuation Ratios				
PE (x)	**30**	**25**	**19**	**17**
P/BV (x)	3.69	3.29	2.84	2.45
EV/Ebitda (x)	**14.5**	**12.2**	**11.0**	**8.9**
EV/Sales (x)	1.7	1.7	1.7	1.6
MCap/ Sales (x)	1.7	1.6	1.6	1.5
EV/Tonne $	94	97	98	78
Return Ratios	13	14	16	16
ROE	15	18	20	19
ROCE	20	21	22	21
ROIC				
Leverage Ratios				
Debt/equity (x)	0.37	0.29	0.29	0.28
Net debt/ Equity (x)	0.05	0.13	0.16	0.17
Net debt/Ebitda	0.21	0.46	0.60	0.57
Interest Coverage ratio (x)	6.3	8.4	8.9	9.6
Cash Flow Ratios				
OCF/Sales	7%	13%	12%	13%
OCF/Ebitda	64%	94%	78%	73%
OCF/Capital Employed	12%	19%	16%	16%
FCF/Sales	5%	7%	-3%	0%
Payout ratio (Div/NP) (%)	13	19	8	7
AEPS (Rs.)	28	35	46	51
AEPS Growth (%)	-26	24	31	12
CEPS (Rs.)	45	52	63	74
DPS (Rs.)	4	7	4	4

Source: Company, Axis Securities Research

JK Lakshmi Cement Price Chart and Recommendation History

Date	Reco	TP	Research
13-Feb-23	BUY	840	Result Update
23-May-23	BUY	720	Result Update
31-Jul-23	BUY	710	Result Update
11-Aug-23	BUY	710	AAA
07-Nov-23	BUY	880	Result Update
20-Dec-23	BUY	1,000	Company Update
14-Feb-24	BUY	1,000	Result Update
28-May-24	BUY	950	Result Update
02-Aug-24	BUY	950	Result Update

Source: Axis Securities Research

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RATING SCALE: Definitions of ratings

Ratings	**Expected absolute returns over 12 – 18 months**
BUY	More than 10%
HOLD	Between 10% and -10%
SELL	Less than -10%
NOT RATED	We have forward looking estimates for the stock, but we refrain from assigning valuation and recommendation.
UNDER REVIEW	We will revisit our recommendation, valuation and estimates on the stock following recent events
NO STANCE	We do not have any forward-looking estimates, valuation or recommendation for the stock

Note: Returns stated in the rating scale are our internal benchmark.

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