AXIS SECURITIES

Result Update
20th May 2022

JK Lakshmi Cement
Cement

Buy
Target Price
620

Robust Performance in Challenging Time; Maintain Buy

JKLC reported strong Volume/Revenue/EBITDA/APAT growth of 8%/13%/3%/26% YoY and 28%/25%/89%/190% QoQ. The encouraging growth on all fronts was on account of higher volume, superior realization, stringent cost management, and lower tax. During the quarter, volume (Clinker plus Cement) was reported at 31.4 million tonnes per annum (mntpa) against 2.9 mntpa YoY. The blended realization improved to Rs 4,763/tonne (Rs 4,552 in Q4FY21), up 5% YoY. Moreover, the company reported a better-than-expected EBITDA Margin on account of cost-efficiency. EBITDA Margin came in at 18.4%, higher by full 440bps than our expectation of 14%. The EBITDA/tonne of Rs 879 was higher by 29% against our expectation of Rs 682/tonne. However, the EBITDA margin was down 190bps on a YoY basis.

Cost/tonne during the quarter declined by 9% QoQ to Rs 3,885 on account of savings in power/fuel and other expenses. On a YoY basis, cost/tonne was higher by 7%. Supported by lower interest costs and tax adjustment, the company's APAT grew by 26% YoY to Rs 172 Cr. During the year, the company generated an OCF of Rs 539 Cr against Rs 862 Cr YoY, lower by 37% owing to higher working capital requirements.The company also declared dividend of Rs 5/share.

From a medium to long-term perspective, we foresee positive traction in the cement demand and expect the company to register Revenue/EBITDA/APAT CAGR of 9%/8%/17% respectively over FY21-24E. This will be driven by a volume CAGR of 4% and a realization CAGR of 4% over the same period. **We roll over our estimate to FY24 and retain our BUY rating on the stock and value the company at 7x FY24E EV/EBITDA to arrive at a target price of Rs 620/share, implying an upside of 48% from the CMP.**

Key Concall Highlights

- **Capacity Expansion:** The capacity expansion at its subsidiary Udaipur Cement Works Limited (UCWL) of 2.5 mntpa (Grinding Unit) and 1.5 mntpa (Clinker facility) along with WHRS plant and railway sidings to be operational by Mar'24. During the quarter, the company's WHRS plant of 10 MW got operational which helped in reducing power/fuel costs.
- **Capex of Rs 1,650 Cr:** The company has commenced expansion work on the project and major equipment has been ordered including Klin. Total promoter contribution to be Rs 550 Cr out of which the parent JKLC will contribute Rs 400-450 Cr and the balance Rs 100-150 Cr would be arranged by UCWL from internal accrual. Total debt to finance the project stands at Rs 1,100 Cr, UCWL has borrowed Rs 350 Cr and the balance amount would be received in the next two years as the project progresses.
- **Volume & Pricing:** During the quarter, the company witnessed good demand in its operating region (North, West, East) leading to 8% volume growth YoY. In the current quarter, the company witnessed some slowdown in demand, particularly in Gujarat owing to strikes in the region and North, too, is witnessing a marginal slowdown owing to high temperature. The company expects demand to improve in the ensuing month. On a positive note, however, East region volume grew YoY with richer pricing., East region performance has improved. The company indicated the volume growth would not be an issue and the same will be achieved by increasing the blending ratio and capacity utilization. The company indicated that EBITDA/tonne to be maintained at Rs 750/ in FY23.
- **Cement prices**: The realization was higher by 5% on a YoY basis on account of a better trade mix, the sale of premium cement, and more direct dispatches. The cement prices were better in West and North India during the quarter which helped the company achieve better realizations. The company undertook a price hike of Rs 20-30/bag in the current quarter in North and West and Rs 10-15 in the East region to pass on the rising cost to its customers. The company stated that the hike in prices is sustaining. The company stated that in order to cover entire cost inflation, it need hike of another Rs 15/per bag.

Valuation & Outlook

- While the cost pressure is likely to increase, we expect it will be passed on to the consumer with better demand and pricing environment moving forward. The company has also undertaken several initiatives to lower the impact of higher costs on its margins. We believe the cement demand in the country will remain buoyant backed by higher infra and housing spending by the government along with robust real estate demand. The company is also progressing well on its capacity expansion plan at its subsidiary and with nearly net debt-free status and cheap valuation, it deserves investors' attention.
- The current valuation is attractive given the recent price correction as the stock is trading at 6x and 5x FY23E and FY24E EV/EBITDA and EV/tonne of $59 and $53 respectively for FY23E and FY24E. **We retain our BUY rating on the stock and roll over our estimate to FY24 and value the company at 7x of its FY24E EV/EBITDA to arrive at a target price of Rs 620/share, implying an upside of 48% from the CMP.**

Key Financials (Standalone)

(Rs Cr)	FY22	FY23E	FY24E
Net Sales	5041	5525	5649
EBITDA	801	879	1002
Net Profit	450	440	528
EPS (Rs)	38	37	45
PER (x)	11	12	10
EV/EBITDA (x)	7	6	5
P/BV (x)	2	1.8	1.5
ROE (%)	20	17	17

Source: Company, Axis Research

	CMP as of May.19, 2022
CMP (Rs)	422
Upside /Downside (%)	48%
High/Low (Rs)	815/368
Market cap (Cr)	5071
Avg. daily vol. (6m) Shrs.	247333
No. of shares (Cr)	11.8

Shareholding (%)

	Sept-21	Dec-21	Mar-22
Promoter	46.01	46.01	46.31
FIIs	12.48	12.97	12.29
MFs / UTI	19.77	19.41	20.58
Banks / FIs	0.02	0.02	0.02
Others	21.72	21.59	20.8

Financial & Valuations

Y/E Mar (Rs Cr)	FY22	FY23E	FY24E
Net Sales	5,041	5,525	5,649
EBITDA	801	879	1,002
Net Profit	450	440	528
EPS (Rs)	38	37	45
PER (x)	11	12	10
EV/EBITDA (x)	7	6	5
P/BV (x)	2	1.8	1.5
ROE (%)	20	17	17

Change in Estimates (%)

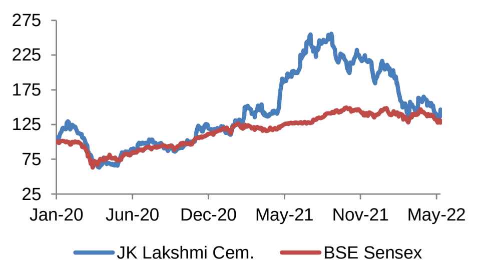
	FY23E	FY24E
Revenue	2	0
EBITDA	1	0
Net profit	-3	0

ESG disclosure Score**

Environmental Disclosure Score	NA
Social Disclosure Score	NA
Governance Disclosure Score	NA
Total ESG Disclosure Score	NA

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 2020 disclosures

Relative performance



Source: Capitaline, Axis Securities

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Valuation & Outlook (Cont…)

- **Value-Added Products**: During the quarter, the sale of value-added products such as RMC, AAC blocks, and Putty stood at Rs 103 Cr vs Rs 100 Cr QoQ. Total sales of value-added products during the year stood at Rs 373 Cr and it expects value growth of 8-10% moving forward.
- **Capex:** The company has guided for a Capex of Rs 80-90 Cr in FY23 and FY24 each. The major Capex will be undertaken at its subsidiary UCWL in the next two years for expansion.
- **Trade Mix:** Trade and non-trade mix stood at 56:44 during the quarter with premium cement comprising 25% of the trade sales.
- **Power/Fuel:** The fuel mix during the quarter was 56% pet coke, 30% coal, and the balance 14% alternative fuel. Better fuel mix and the commissioning of the WHRS plant contributed to savings in power/fuel cost. However, the company indicated the cost to be higher by 7-8% moving ahead as new inventory having higher prices will be utilized. The current cost of fule inventory is Rs 9,000/tonne. The commissioning of the WHRS plant in Sirohi has reduced power costs and the overall portfolio of renewable power to be ~40-45%.
- **Freight**: The company is working to reduce overall logistic costs and lead distance. 80% of the cement sales are through direct dispatches in the trade segment and 100% in the non-trade segment. During the quarter, the lead distance was 390 Km against 400 Km in Q3FY22. The railroad mix during the quarter was 24:76 except in the East region for the lack of the company's railway sidings in the region.
- **Raw Material Cost**: Raw material cost on a per tonne basis stood at Rs 1270, higher by 16% YoY owing to higher fuel cost inventory.
- **Other Expenses**: The company's other expenses decreased during the quarter owing to better absorption of fixed costs and reduced branding and promotion expenses. On a per tonne basis, costs were lower by 27% at Rs 396. Last year, the company participated in the IPL promotion which led to higher other expenses.
- **Debt Position:** Total gross debt in the books as of Mar'22 stands at Rs 962 Cr and cash & cash equivalent at Rs 887 Cr. Net debt is Rs 75 Cr.

Story in Charts

Exhibit 3: Volume Trend

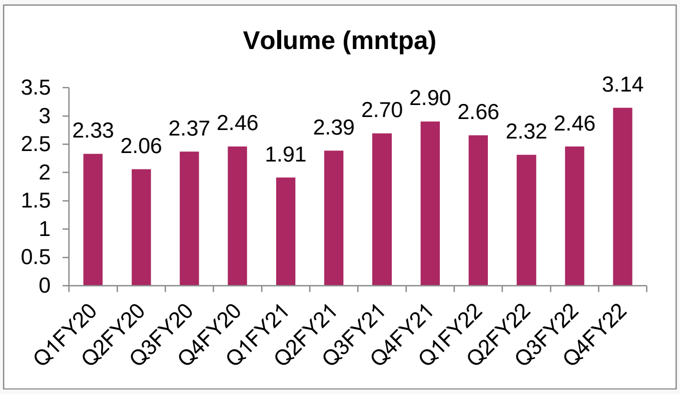
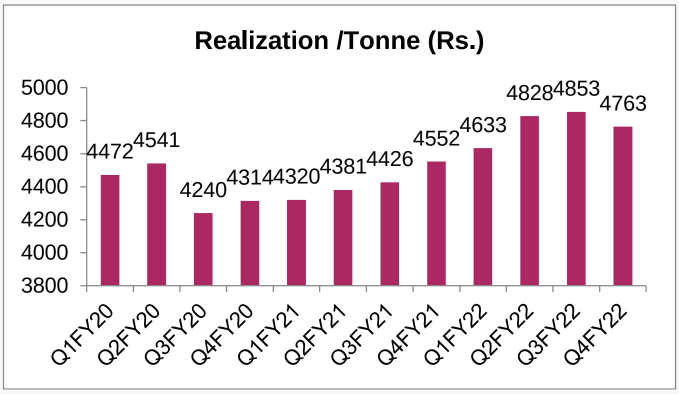


Exhibit 4: Realization Trend



Source: Company, Axis Securities

Exhibit 5: EBITDA Trend

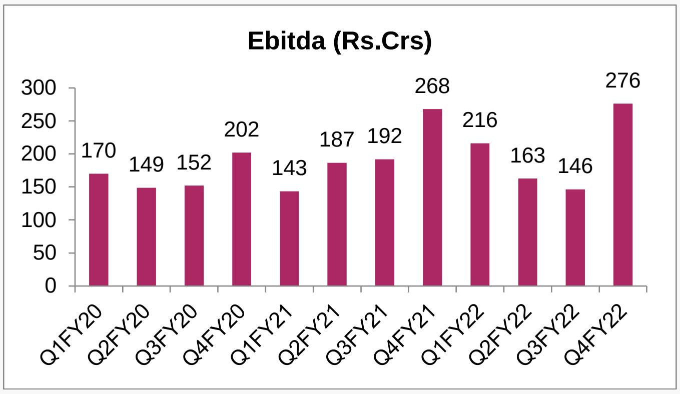
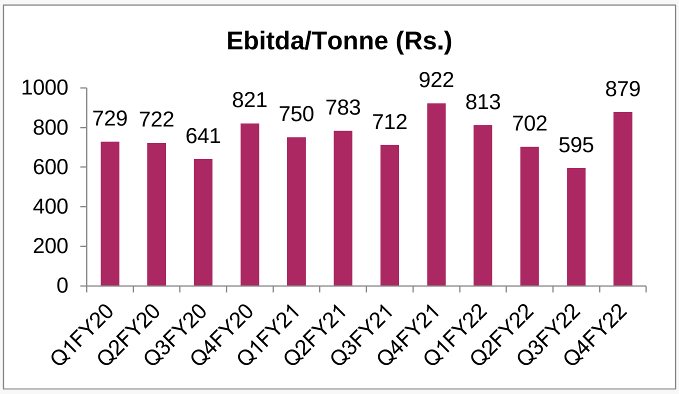


Exhibit 6: Trend in EBITDA/Tonne



Source: Company, Axis Securities

Exhibit 5: Trend in Cost / Tonne

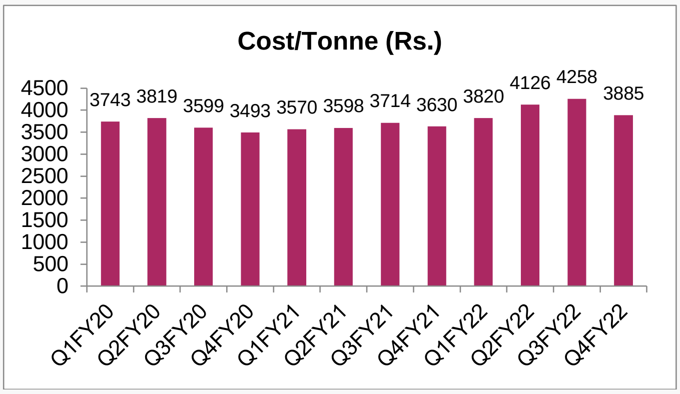
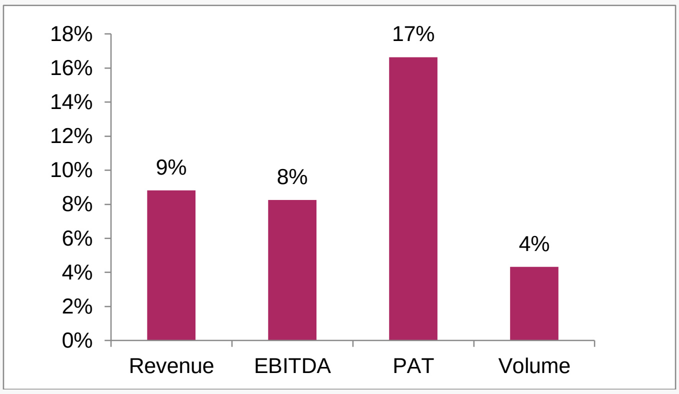
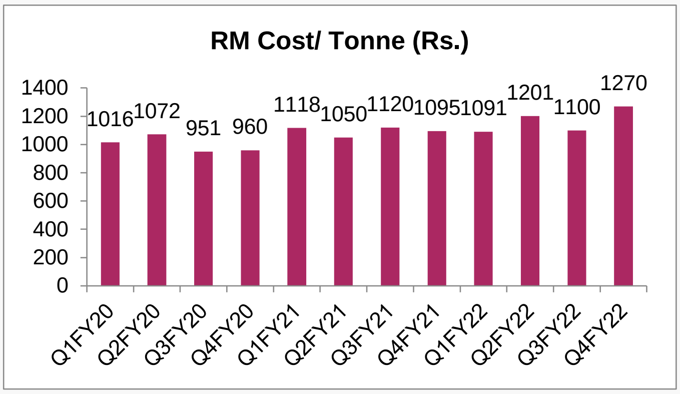


Exhibit 6: CAGR (FY20-23)



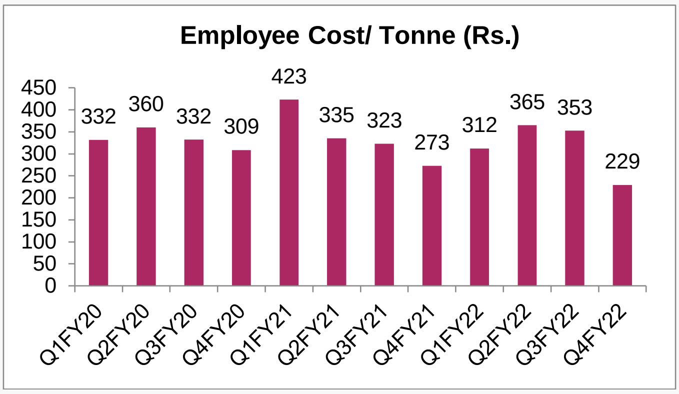
Source: Company, Axis Securities

Exhibit 9: Trend in RM Cost



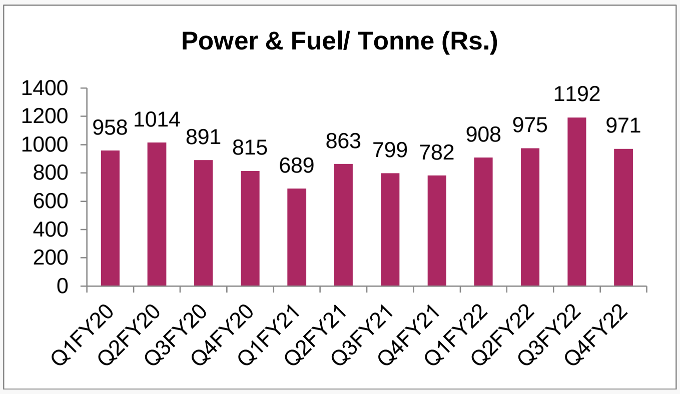
Source: Company, Axis Securities,

Exhibit 10: Staff Cost



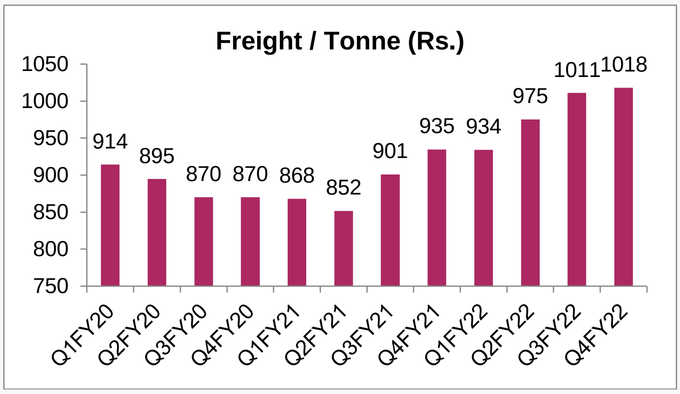
Source: Company, Axis Securities

Exhibit 11: Power & Fuel Cost



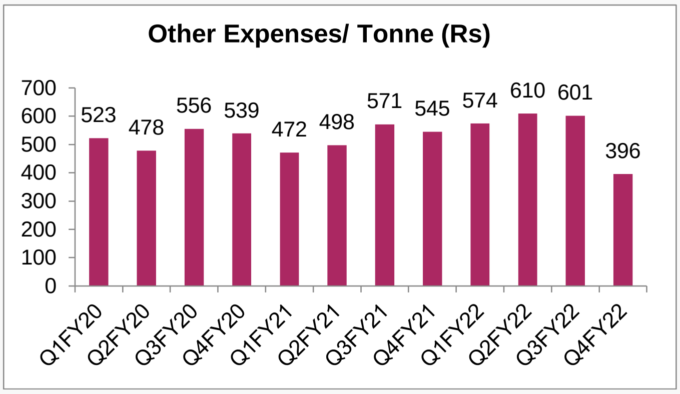
Source: Company, Axis Securities,

Exhibit 12: Freight Cost



Source: Company, Axis Securities

Exhibit 13: Other Expenses



Source: Company, Axis Securities,

Q4FY22 Result Comparative **(Rs Cr)**

(Rs Cr)	4QFY22	3QFY22	% Chg qoq	4QFY21	% Chg yoy
Net sales	1498	1193	25%	1,322	13%
Expenditure	1221	1047	17%	1,054	16%
EBITDA	276	146	89%	268	3%
Other income	18	16	7%	27	-35%
Interest	22	25	-13%	30	-27%
Depreciation	51	47	8%	48	6%
PBT	221	91	143%	217	2%
Tax	26	32	-17%	50	-48%
PAT	172	59	190%	137	26%
EBITDA margin (%)	18.4%	12.3%	620bps	20.3%	(190)bps
EPS (Rs)	14.6	5.0	190%	11.6	26%

Source: Company, Axis Securities

Volume/Realization/Cost Analyses **(Rs Cr)**

(Rs Cr)	4QFY22	3QFY22	% Chg qoq	4QFY21	% Chg yoy
Volume/mnt	3.14	2.46	28%	2.90	8%
Realisation/tonne (Rs)	4763	4853	-2%	4,552	5%
Cost/tonne (Rs)	3885	4258	-9%	3,630	7%
Raw material/tonne (Rs)	1270	1100	15%	1,095	16%
Staff Cost/tonne (Rs)	229	353	-35%	273	-16%
Power & Fuel/tonne (Rs)	971	1192	-19%	782	24%
Freight/tonne (Rs)	1018	1011	1%	935	9%
Other Expenses /tonne (Rs)	396	601	-34%	545	-27%
EBITDA/tonne (Rs)	879	595	48%	922	-5%

Source: Company, Axis Securities

Financials (Standalone)

Profit & Loss

(Rs Cr)

Y/E March	FY22	FY23E	FY24E
Net sales	5041	5525	5649
Other operating income	0	0	0
Total income	**5041**	**5525**	**5649**
Raw Material	1238	1301	1288
Power & Fuel	1066	1234	1228
Freight & Forwarding	1043	1184	1172
Employee benefit expenses	326	335	355
Other Expenses	566	592	604
EBITDA	**801**	**879**	**1002**
Other income	67	72	73
PBIDT	**868**	**951**	**1075**
Depreciation	191	199	205
Interest & Fin Chg.	96	96	82
E/o income / (Expense)	0	0	0
Pre-tax profit	**582**	**656**	**788**
Tax provision	132	217	260
(-) Minority Interests			
Associates	0	0	0
Profit after Tax	**450**	**440**	**528**
Other Comprehensive Income	0	0	0
PAT after Comprehensive Income	**450**	**440**	**528**

Source: Company, Axis Securities

Balance Sheet

(Rs Cr)

Y/E March	FY22	FY23E	FY24E
Total assets	4839	5194	5534
Net Block	2831	2736	2644
CWIP	112	28	28
Investments	390	390	390
Wkg. cap. (excl cash)	227	224	224
Cash / Bank balance	339	348	332
Misc. Assets	94	147	192
Capital employed	**4839**	**5194**	**5534**
Equity capital	59	59	59
Reserves	2394	2810	3303
Minority Interests	0	0	0
Borrowings	1213	1063	913
Def tax Liabilities	0	0	0
Other Liabilities and Provision	1174	1263	1259

Source: Company, Axis Securities

Cash Flow

(Rs Cr)

Y/E March	FY22	FY23E	FY24E
Profit before tax	582	656	788
Depreciation	191	199	205
Interest Expenses	96	96	82
Non-operating/ EO item	-71	-72	-73
Change in W/C	-153	4	0
Income Tax	-98	-217	-260
Operating Cash Flow	546	667	742
Capital Expenditure	-120	-111	-113
Investments	42	100	-450
Others	34	72	73
Investing Cash Flow	-44	61	-490
Borrowings	-171	-150	-150
Interest Expenses	-95	-96	-82
Dividend paid	-44	-24	-35
Financing Cash Flow	-311	-269	-267
Change in Cash	191	459	-15
Opening Cash	46	67	76
Closing Cash	67	76	61

Source: Company, Axis Securities

Ratio Analysis

(%)

Y/E March	FY22	FY23E	FY24E
Sales growth	**15%**	**10%**	**2%**
OPM	**15.89%**	**15.92%**	**17.74%**
Op. profit growth	1%	10%	14%
COGS / Net sales	66%	67%	65%
Overheads/Net sales	18%	17%	17%
Depreciation / G. block	5%	5%	5%
Effective interest rate (%)			
	0.06	0.04	0.12
Net wkg.cap / Net sales	1.27	1.33	1.32
Net sales / Gr block (x)			
	19	**20**	**21**
RoCE	0.5	0.4	0.3
Debt / equity (x)	0.1	0.09	-0.09
Effective tax rate	23%	33%	33%
RoE	**20**	**17**	**17**
Payout ratio (Div/NP)	5%	5%	7%
EPS (Rs)	**38**	**37**	**45**
EPS Growth	86%	30%	30%
CEPS (Rs)	54	54	62
DPS (Rs)	2	2	3

Source: Company, Axis Securities

JK Lakshmi Cement Price Chart and Recommendation History

Date	Reco	TP	Research
20-Oct-20	BUY	339	Initiating Coverage
09-Nov-20	BUY	370	Result Update
03-Feb-21	BUY	400	Result Update
24-May-21	BUY	590	Result Update
30-Jul-21	BUY	770	Result Update
11-Aug-21	BUY	770	AAA
02-Nov-21	BUY	750	Result Update
04-Feb-22	BUY	640	Result Update
20-May-22	BUY	620	Result Update

Source: Axis Securities

AXIS SECURITIES

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Analyst Bio: Shikha Doshi is Master of Science in Finance from Illinois Institute of Technology, Chicago, currently handling Cement/infra sector.

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HOLD	Between 10% and -10%
SELL	Less than -10%
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UNDER REVIEW	We will revisit our recommendation, valuation and estimates on the stock following recent events
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