

RESEARCH

BOB ECONOMICS RESEARCH | WPI

WPI at 2-year low

JK LAKSHMI CEMENT | TARGET: Rs 551 | -26% | SELL

Cost overruns remain a concern

SUMMARY

INDIA ECONOMICS: WPI

WPI inflation has slumped to 4.7% in Jan'23 (5% Dec'22), on the back by moderation in fuel and manufactured product inflation. On the other hand food prices accelerated, led by cereals, pulses, fruits, milk spices and vegetables. Supported by moderation in international oil prices and commodity prices, fuel (15% versus 18%) and manufactured (3% versus 3.4%) product inflation cooled. Core inflation also eased to 2.8% from 3.2%. Going ahead, trend in food prices needs to be monitored as it might provide an upside shock to the headline number. However, with global growth slowing, fuel and commodity prices can be expected to remain muted, hence providing support in bringing WPI down.

[Click here](#) for the full report.

JK LAKSHMI CEMENT

- Q3 volumes surged 16% YoY on a weak base with realisations up 8%, aiding healthy topline growth
- Despite strong realisation gains, EBITDA margin contracted 160bps YoY as costs spiked
- Valuations are running ahead of fundamentals; maintain SELL with an unchanged TP of Rs 551

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Daily macro indicators

Indicator	10-Feb	13-Feb	Chg (%)
US 10Y yield (%)	3.73	3.70	(3bps)
India 10Y yield (%)	7.36	7.37	0bps
USD/INR	82.50	82.73	(0.3)
Brent Crude (US\$/bbl)	86.4	86.6	0.3
Dow	33,869	34,246	1.1
Hang Seng	21,190	21,164	(0.1)
Sensex	60,683	60,432	(0.4)
India FII (US\$ mn)	09-Feb	10-Feb	Chg (\$ mn)
FII-D	(152.5)	32.1	184.6
FII-E	4.0	209.0	205.0

Source: Bank of Baroda Economics Research

BOBCAPS Research

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WPI

14 February 2023

WPI at 2-year low

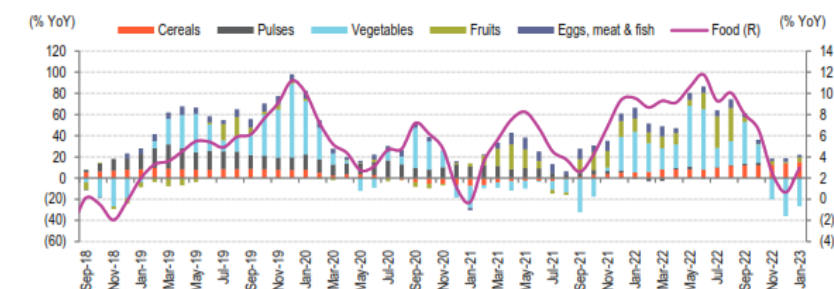
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Sonal Badhan
Economist

Food picks up pace:

Headline WPI moderated to 2 year low of 4.7% in Jan'23 from 5% in Dec'22. Food inflation last month accelerated to 3-month high of 2.9% from 0.7% in Dec'22. This was led by increase in prices of food grains (13% in Jan'23 versus 11.6% in Dec'22), fruits (4.1% versus 1.3%), milk (9% versus 7%) and spices (16.1% versus 15.4%). Prices of vegetables (-26.5% versus -36%) fell less sharply. Within vegetables, pressure can be seen emerging in items like: onions (-25% versus -26%), tomato (-40% versus -65%), ginger (67% versus 34%), and cucumber (0.9% versus -22%). Within food grains, price build up was visible in both cereals (15.5% versus 14%) and pulses (2.4% versus 1.5%). Amongst the cereals both paddy (7.2% versus 6.8%) and wheat (23.6% versus 20.7%) saw prices going up. At the international level, World Bank's pink sheet data shows that while global paddy prices continue to inch up (18.5% in Jan'23 versus 14.3% in Dec'22), wheat prices are slowing (1.6% versus 2.5%).

Figure 1: Food inflation accelerates in Jan'23



Source: CEIC, Bank of Baroda Research

Fuel and power moderates:

Fuel and power inflation in Jan'23 eased to 22-month low of 15.2% from 18.1% in Dec'22, owing to moderation in the mineral oil index (17.9% versus 22.7%). Coal and electricity price growth remained unchanged from the previous month in Jan'23 at 2.6% and 16.6% respectively. Within this index, prices of ATF (42% versus 64%), Kerosene (55% versus 65%), petrol (16% versus 17%) slowed, while that of Naphtha fell (-2% versus 8%).



SELL

TP: Rs 551 | ▼ 26%

JK LAKSHMI CEMENT

Cement

14 February 2023

Cost overruns remain a concern

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Volumes healthy on a weak base: JKLC's Q3FY23 revenue increased 25% YoY (+14% QoQ) to Rs 14.9bn, supported by 16% higher volumes (+17% QoQ) to 2.7mt (including clinker sales) and an 8% rise in realisations (-2% QoQ) to Rs 5,325/t. Volume growth though optically strong is on a weak base YoY and also reflects favourable seasonality QoQ.

Costs elevated: Operating cost increased by 10% YoY (-2% QoQ) to Rs 4,940/t, largely due to a 19% rise in energy and raw material cost to Rs 2,256/t. The energy cost curve, however, is flattening with a sequential uptick of only 1%. External purchases grew 15% YoY to Rs 594/t. Logistics cost/t was up 2% YoY (+1% QoQ) to Rs 1,094/t as JKLC lacks rail transport at its eastern facility (Durg). Other expenditure climbed 22% YoY (+24% QoQ) to Rs 1.8bn, which raised overall costs and put pressure on margins.

Margins soft despite healthy realisation gains: Q3 EBITDA grew 9% YoY (+15% QoQ) to Rs 1.6bn, but higher costs caused the EBITDA margin to contract from 12.3% in the year-ago quarter to 10.7% (flatish QoQ). EBITDA/t fell 6% YoY to Rs 593/t (-1% QoQ). PAT grew 24% YoY (+25% QoQ) to Rs 736mn.

Capacity expansion delayed: Capacity expansion at Udaipur (Rajasthan) that was scheduled for commissioning in Q4FY24 is guided to be delayed to Q1FY25. Management indicated that JKLC will add another 12mt of capacity and has plans to reach 30mt by 2030.

Maintain SELL: In our view, current valuations at 10.5x FY25E EV/EBITDA have outrun earnings growth potential considering JKLC's financial and operational structure. Past experience also suggests that the company's capex execution has been less than ideal, leading to delays (in-house and at subsidiary UCWL as well). We maintain our SELL rating and continue to value the stock at 8x FY25E EV/EBITDA for an unchanged TP of Rs 551. Our TP implies a replacement cost of Rs 6.6bn/mt – a 6% discount to the industry benchmark (for details, see our [initiation report](#)).

Key changes

Target	Rating
◀ ▶	◀ ▶

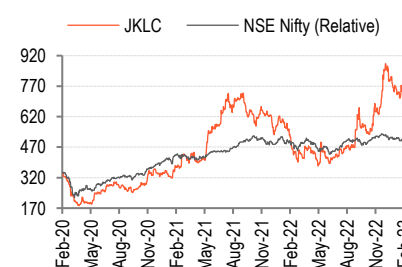
Ticker/Price	JKLC IN/Rs 747
Market cap	US\$ 1.1bn
Free float	54%
3M ADV	US\$ 5.6mn
52wk high/low	Rs 897/Rs 366
Promoter/FPI/DII	46%/14%/26%

Source: NSE | Price as of 14 Feb 2023

Key financials

Y/E 31 Mar	FY22A	FY23E	FY24E
Total revenue (Rs mn)	50,408	62,533	67,356
EBITDA (Rs mn)	8,013	7,027	7,855
Adj. net profit (Rs mn)	4,496	3,260	3,874
Adj. EPS (Rs)	38.2	27.7	32.9
Consensus EPS (Rs)	38.2	34.4	44.2
Adj. ROAE (%)	19.6	12.7	13.6
Adj. P/E (x)	19.5	26.9	22.7
EV/EBITDA (x)	10.9	13.2	11.6
Adj. EPS growth (%)	13.9	(27.5)	18.8

Source: Company, Bloomberg, BOBCAPS Research

Stock performance

Source: NSE



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Recommendation scale: Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

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