

SELL

TP: Rs 551 | ▼ 26%

JK LAKSHMI CEMENT

Cement

14 February 2023

Cost overruns remain a concern

- 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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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
◀ ▶	◀ ▶

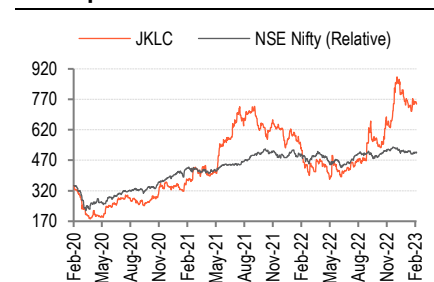
Ticker/Price	JKLC IN/Rs 747
Market cap	US\$ 1.1bn
Free float	54%
3M ADV	US\$ 5.6mn
52wk high/low	Rs 897/Rs 366
Promoter/FPI/DII	46%/14%/26%

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



Earnings call highlights

- Cement prices improved marginally in Q3FY23. Management expects a focus on volume growth and operating efficiencies to aid margin expansion beyond realisation upsides.
- JKLC is targeting cement volume growth of 12% for FY23 and 12-15% for FY24. Volumes are expected to clock in at ~50k/month at the Amethi grinding unit in Uttar Pradesh.
- Capacity utilisation increased to 85% in Q3 from 77% in the prior quarter.
- Fuel cost in Q3 was Rs 2.57/kcal (against Rs 2.30/kcal in Q2), and management expects it to remain flat in Q4. Other expenditure is guided to remain at Q3 levels, as is fuel cost inventory, with the latter likely to start trending down from Q1FY24.
- JKLC is targeting EBITDA/t of Rs 1,000 in the next 18-24 months from Rs 650 currently, of which it expects Rs 200+ will come from topline levers, Rs 50 from manufacturing efficiencies and Rs 50 from supply chain improvement.
- Operating margin for AAC (autoclaved aerated concrete) blocks stood at 12%. Other products earned a 7% margin (5% in Q2FY23 and 3% in Q3FY22), which is guided to be in the region of 7-8% in FY24. The Aligarh plant was acquired recently for the AAC block and production has begun. A putty plant will be set up in the 6-9 months at Alwar facility in Rajasthan.
- Trade share was at 54%, blended share at 66% and premium share at 11% of Q3 volumes. Lead distance stood at 396km against 401km in Q2. With respect to achieving its earlier target of +60% trade share and 70-75% blended share, management indicated that its priority is optimisation of the geographical mix.
- To further optimise energy costs, JKLC is implementing a project that will enable it to enhance the thermal substitution rate from 4% to 12% at its Sirohi (Rajasthan) unit. The company has also tied up with a private player for the supply of 40MW of solar power for its Durg (Chhattisgarh) plant. Following this, the share of renewable energy would rise to 80% at Durg and ~50% for the company as a whole. Both these projects are expected to be commissioned by Q4FY24.
- Management indicated that JKLC will add another 12mt of capacity and has plans to reach 30mt by 2030.
- The company has limestone leases in three locations (Durg, Nagaur and Kutch). Nagaur (Rajasthan) is the top priority (for capacity addition) followed by Durg and then Kutch (Gujarat). Sirohi is due for lease auctions in 2030.
- Capex (standalone) incurred in Q3FY23 was at Rs 2.5bn. A sum of Rs 2bn is to be incurred in Q4FY23 and Rs 7.5bn in FY24.

Fig 1 – Key metrics

(Rs)	Q3FY23	Q3FY22	YoY (%)	Q2FY23	QoQ (%)
Volumes (mt)	2.7	2.3	15.5	2.3	16.7
Cement realisations (Rs/mt)	5,325	4,945	7.7	5,426	(1.9)
Operating costs (Rs/mt)	4,940	4,496	9.9	5,050	(2.2)
EBITDA (Rs/mt)	593	629	(5.6)	601	(1.3)

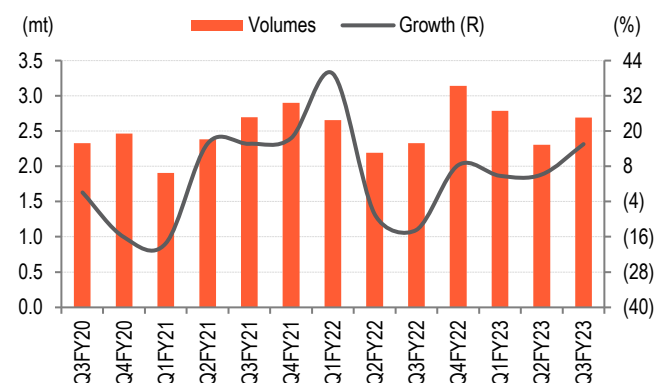
Source: Company, BOBCAPS Research

Fig 2 – Quarterly performance

(Rs mn)	Q3FY23	Q3FY22	YoY (%)	Q2FY23	QoQ (%)
Net Sales	14,885	11,934	24.7	13,027	14.3
Expenditure					
Change in stock	(736)	(484)	52.2	(342)	115.4
Raw material	2,461	1,984	24.1	2,175	13.2
Purchased products	1,598	1,206	32.6	1,698	(5.9)
Power & fuel	4,345	2,932	48.2	3,332	30.4
Freight	2,942	2,486	18.3	2,494	18.0
Employee costs	877	868	1.1	833	5.3
Other expenditure	1,802	1,479	21.9	1,451	24.2
Total Operating Expenses	13,289	10,470	26.9	11,640	14.2
EBITDA	1,596	1,464	9.0	1,386	15.1
EBITDA margin (%)	10.7	12.3	(155bps)	10.6	8bps
Other Income	156	164	(5.0)	214	(27.1)
Interest	247	251	(1.4)	226	9.3
Depreciation	480	468	2.6	481	(0.1)
PBT	1,025	910	12.6	894	14.7
Non-recurring items	0	0	0.0	0	0.0
PBT (after non-recurring items)	1,025	910	12.6	894	14.7
Tax	289	318	(9.0)	304	(5.0)
Tax Rate (%)	28	35	(671bps)	34	(584bps)
Reported PAT	736	592	24.2	590	24.8
Adjusted PAT	736	592	24.2	590	25
NPM (%)	4.9	5.0	(2bps)	4.5	42bps
Adjusted EPS (Rs)	6.3	5.0	24.2	5.0	25

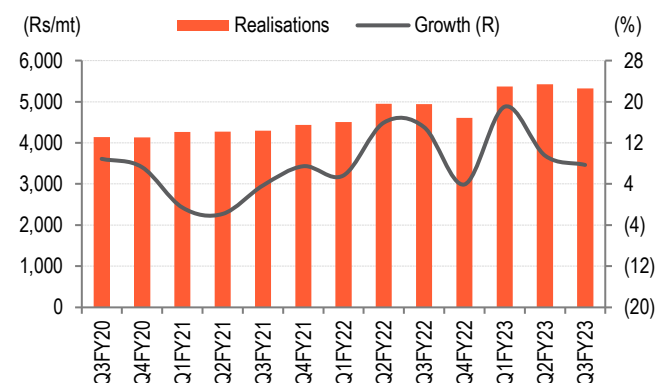
Source: Company, BOBCAPS Research

Fig 3 – Volumes moved up on a weak base, also aided by new contract manufacturing



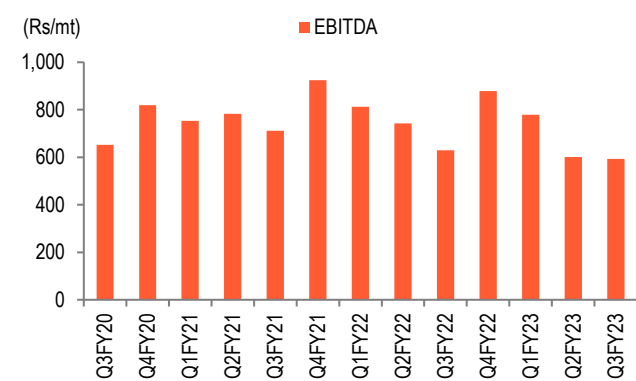
Source: Company, BOBCAPS Research

Fig 4 – Realisation gains offset by cost spiral



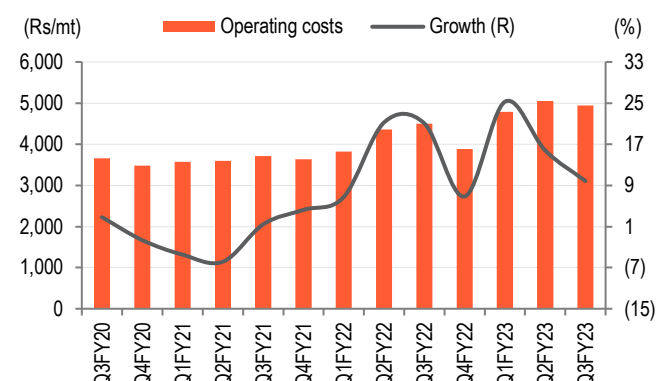
Source: Company, BOBCAPS Research

Fig 5 – EBITDA/t softened



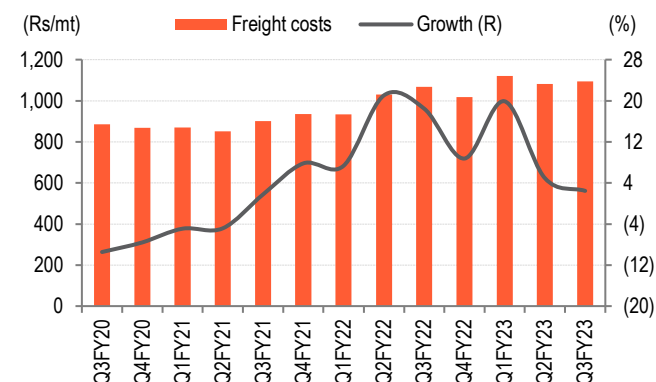
Source: Company, BOBCAPS Research

Fig 6 – Other expenses and energy cost pushed up overall expenditure



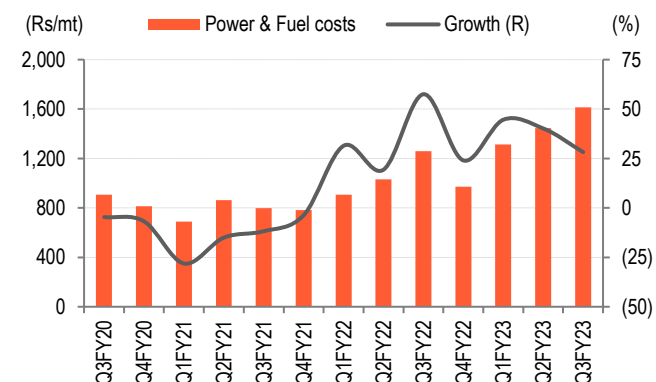
Source: Company, BOBCAPS Research

Fig 7 – Logistics cost to stay elevated till Durg railway siding becomes operational



Source: Company, BOBCAPS Research

Fig 8 – Energy cost climbed higher



Source: Company, BOBCAPS Research

Valuation methodology

In our view, current valuations at 10.5x FY25E EV/EBITDA have outrun JKLC's earnings growth potential considering its elevated cost structure. Past experience also suggests that the company's capex execution has been less than smooth, leading to delays in commissioning new capacities, thereby clouding growth prospects (expansion at subsidiary Udaipur Cement Works has been pushed back, in stark contrast to peers who have been fast-tracking capacity addition).

Factoring in the same, we continue to value the stock at 8x FY25E EV/EBITDA for an unchanged TP of Rs 551 and maintain our SELL rating. Our TP implies a replacement cost of Rs 6.6bn/mt – 6% discount to the industry benchmark. Apart from the current urgency for capex due to the limited capacity headroom available to the company, we would also await a more consistent operating performance backed by judicious capital allocation before revisiting our estimates.

Fig 9 – Key assumptions

Parameter	FY22	FY23E	FY24E	FY25E
Volumes (mt)	10.3	11.1	12.2	13.4
Realisations (Rs/mt)	4,494	5,483	5,510	5,538
Operating costs (Rs/mt)	4,132	4,996	4,869	4,774
EBITDA (Rs/mt)	781	633	643	711

Source: Company, BOBCAPS Research

Fig 10 – Valuation summary

Business (Rs mn)	FY25E
Target EV/EBITDA (x)	8
EBITDA	9,552
Target EV	76,419
Total EV	76,419
Net debt	11,601
Target market capitalisation	64,818
Target price (Rs/sh)	551
Weighted average shares (mn)	118

Source: BOBCAPS Research

Fig 11 – Peer comparison

Ticker	Rating	TP (Rs)	EV/EBITDA (x)			EV/tonne (US\$)			ROE (%)			ROCE (%)		
			FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
JKLC IN	SELL	551	13.2	11.6	10.4	93	92	100	12.7	13.6	14.6	16.8	17.7	17.4
JKCE IN	BUY	3,371	16.5	13.6	10.4	205	201	197	17.0	17.8	19.2	16.2	17.0	19.1
TRCL IN	SELL	534	21.6	16.9	13.1	123	123	124	3.2	6.0	8.5	4.5	6.6	8.7

Source: BOBCAPS Research

Key risks

Key upside risks to our estimates are:

- higher demand driving better pricing in JKLC's key areas of operation,
- operating performance improving ahead of our estimates, and
- timely capex execution.

Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
ACC	ACC IN	4.2	1,830	2,090	HOLD
Ambuja Cement	ACEM IN	8.1	337	387	HOLD
Dalmia Bharat	DALBHARA IN	4.5	1,903	1,835	HOLD
JK Cement	JKCE IN	2.6	2,742	3,371	BUY
JK Lakshmi Cement	JKLC IN	1.1	747	551	SELL
Orient Cement	ORCMNT IN	0.3	121	140	HOLD
Shree Cement	SRCM IN	10.7	24,635	24,656	HOLD
Star Cement	STRCEM IN	0.6	110	138	BUY
The Ramco Cements	TRCL IN	2.1	723	534	SELL
Ultratech Cement	UTCEN IN	24.9	7,139	8,310	BUY

Source: BOBCAPS Research, NSE | Price as of 14 Feb 2023

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Total revenue	43,847	50,408	62,533	67,356	73,729
EBITDA	7,898	8,013	7,027	7,855	9,552
Depreciation	(1,942)	(1,905)	(1,941)	(1,992)	(2,303)
EBIT	6,700	6,780	5,823	6,699	8,107
Net interest inc./(exp.)	(1,425)	(963)	(883)	(874)	(1,027)
Other inc./(exp.)	745	673	737	837	858
Exceptional items	(309)	(234)	0	0	0
EBT	4,966	5,583	4,940	5,826	7,080
Income taxes	(1,328)	(1,321)	(1,680)	(1,952)	(2,372)
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	0	0	0	0	0
Reported net profit	3,638	4,262	3,260	3,874	4,708
Adjustments	309	234	0	0	0
Adjusted net profit	3,947	4,496	3,260	3,874	4,708

Balance Sheet

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Accounts payables	10,764	7,658	13,838	14,835	15,649
Other current liabilities	6,315	7,046	7,237	7,458	7,680
Provisions	201	267	760	789	821
Debt funds	7,904	7,953	8,865	9,525	18,814
Other liabilities	641	943	150	170	198
Equity capital	588	588	588	588	588
Reserves & surplus	20,209	23,419	26,221	29,545	33,702
Shareholders' fund	20,797	24,523	26,810	30,133	34,291
Total liab. and equities	46,622	48,390	57,660	62,909	77,452
Cash and cash eq.	7,270	8,869	4,047	6,291	7,213
Accounts receivables	537	345	1,628	1,753	2,121
Inventories	3,155	4,912	6,767	7,289	8,383
Other current assets	2,932	2,003	5,952	6,547	7,202
Investments	3,833	3,899	3,948	3,998	4,049
Net fixed assets	26,371	27,134	27,210	27,416	40,359
CWIP	2,451	1,127	8,000	9,500	8,000
Intangible assets	72	103	108	116	127
Deferred tax assets, net	0	0	0	0	0
Other assets	0	0	0	0	0
Total assets	46,621	48,390	57,660	62,909	77,452

Cash Flows

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Cash flow from operations	7,992	3,537	4,185	5,889	5,991
Capital expenditures	(1,180)	(1,386)	(8,896)	(3,706)	(13,757)
Change in investments	352	(1,867)	2,731	(2,350)	(1,051)
Other investing cash flows	0	0	0	0	0
Cash flow from investing	(828)	(3,253)	(6,164)	(6,056)	(14,808)
Equities issued/Others	0	516	(516)	0	0
Debt raised/repaid	(3,926)	49	912	660	9,289
Interest expenses	0	0	0	0	0
Dividends paid	(441)	(441)	(471)	(471)	(471)
Other financing cash flows	473	(609)	14	(79)	(79)
Cash flow from financing	(3,894)	(486)	(61)	110	8,739
Chg in cash & cash eq.	3,270	(202)	(2,040)	(56)	(78)
Closing cash & cash eq.	7,270	8,869	4,048	6,291	7,213

Per Share

Y/E 31 Mar (Rs)	FY21A	FY22A	FY23E	FY24E	FY25E
Reported EPS	30.9	36.2	27.7	32.9	40.0
Adjusted EPS	33.5	38.2	27.7	32.9	40.0
Dividend per share	3.8	3.8	4.0	4.0	4.0
Book value per share	176.7	208.4	227.8	256.1	291.4

Valuations Ratios

Y/E 31 Mar (x)	FY21A	FY22A	FY23E	FY24E	FY25E
EV/Sales	2.0	1.7	1.5	1.4	1.3
EV/EBITDA	11.2	10.9	13.2	11.6	10.4
Adjusted P/E	22.3	19.5	26.9	22.7	18.7
P/BV	4.2	3.6	3.3	2.9	2.6

DuPont Analysis

Y/E 31 Mar (%)	FY21A	FY22A	FY23E	FY24E	FY25E
Tax burden (Net profit/PBT)	73.3	76.3	66.0	66.5	66.5
Interest burden (PBT/EBIT)	78.7	85.8	84.8	87.0	87.3
EBIT margin (EBIT/Revenue)	15.3	13.5	9.3	9.9	11.0
Asset turnover (Rev./Avg TA)	95.2	106.1	117.9	111.7	105.1
Leverage (Avg TA/Avg Equity)	2.4	2.1	2.1	2.1	2.2
Adjusted ROAE	20.4	19.6	12.7	13.6	14.6

Ratio Analysis

Y/E 31 Mar	FY21A	FY22A	FY23E	FY24E	FY25E
YoY growth (%)					
Revenue	8.4	15.0	24.1	7.7	9.5
EBITDA	17.5	1.5	(12.3)	11.8	21.6
Adjusted EPS	48.7	13.9	(27.5)	18.8	21.5
Profitability & Return ratios (%)					
EBITDA margin	18.0	15.9	11.2	11.7	13.0
EBIT margin	15.3	13.5	9.3	9.9	11.0
Adjusted profit margin	9.0	8.9	5.2	5.8	6.4
Adjusted ROAE	20.4	19.6	12.7	13.6	14.6
ROCE	22.9	21.6	16.8	17.7	17.4
Working capital days (days)					
Receivables	4	2	10	10	11
Inventory	26	36	40	40	42
Payables	109	66	91	91	89
Ratios (x)					
Gross asset turnover	1.2	1.3	1.5	1.5	1.2
Current ratio	0.8	1.1	0.8	0.9	1.0
Net interest coverage ratio	4.7	7.0	6.6	7.7	7.9
Adjusted debt/equity	0.4	0.3	0.3	0.3	0.5

Source: Company, BOBCAPS Research | Note: TA = Total Assets

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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.

Ratings and Target Price (3-year history): JK LAKSHMI CEMENT (JKLC IN)



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