

JK Lakshmi Cement Ltd.

BUY

Choice

Synergical benefits upon merger with UCWL

JK Lakshmi Cement's Q1FY25 volumes came in at 2.3mnt, down 9.0% QoQ and 8.3% YoY, resulting in revenues of INR 14,445mn, a decline of 12.3% QoQ and 11.6% YoY. The volume decline was attributed to longer layoffs during the election period. EBITDA/t for the quarter was INR796/t, down 26.4% QoQ but up 19.9% YoY, with the QoQ drop mainly due to lower realizations. PAT for Q1FY25 stood at INR 1,563mn, up 9.8% QoQ and 105.1% YoY, with an EPS of INR 13.3. During Q1FY25, the company's Net Debt to EBITDA ratio was 0.29x, and Net Debt to Equity stood at 0.10x. Additionally, the company is implementing a project to enhance its Thermal Substitution Rate (TSR) from 4% to 16% in a phased manner at its Sirohi Cement Plant as part of its green initiatives.

- **Future expansion plans:** JK Lakshmi Cement is actively working towards surpassing its targeted capacity of 30mnt by FY30E. The company's subsidiary, Udaipur Cement Works Ltd (UCWL), successfully commissioned a cement grinding capacity of 2.5mtpa was commissioned in March 2024. The company is also expanding its cement grinding capacity at the Surat Grinding Unit from 1.35 mtpa to 2.7 mtpa, with the project expected to cost INR2,250mn, funded through INR1,500mn in term loans from banks and the remainder from internal accruals. Furthermore, the company is setting up a railway siding at its Durg Cement Plant at a cost of INR3,250mn, funded by INR2,250mn in debt and the balance from internal accruals. In addition, JK Lakshmi is expanding the clinker capacity at its integrated cement plant in Durg, Chhattisgarh, by installing an additional clinker line of 2.3 mtpa. The expansion also includes 4 cement grinding units with a total capacity of 4.6 mtpa in Durg, Chhattisgarh, and three split-location cement grinding units with a combined capacity of 3.4 mtpa in Prayagraj, Uttar Pradesh; Madhubani, Bihar; and Patratu, Jharkhand. The entire project is projected to cost INR25,000mn, with INR17,500mn funded through term loans from banks and the balance through internal accruals.

- **Synergical benefits upon merger with UCWL:** JK Lakshmi Cement plans to issue 4 equity shares of face value INR 5 each for every 100 equity shares of INR 4 each held in Udaipur Cement Works Ltd (UCWL) by UCWL shareholders (excluding JK Lakshmi Cement) as part of a merger based on a fair value swap ratio. This merger is expected to benefit JK Lakshmi by streamlining manufacturing, distribution processes, and logistics, reducing time to market, and offering advantages to customers. The merger will also allow for fixed cost reductions and other economies of scale, including common procurement. Currently, cement assets are fragmented across four entities: JK Lakshmi, Udaipur Cement, Hansdeep, and Hidrive. The proposed scheme consolidates the cement assets of all four entities into a single, business-focused listed entity, resulting in a stronger balance sheet and the availability of consolidated cash flows within one entity, which will facilitate faster growth.

Outlook and Valuation: The outlook for the cement sector appears extremely promising in the coming year, supported by the government's emphasis on infrastructure development and increased budgetary allocations for the sector. The company's management remains committed to its ambitious capex plans, aiming to reach a capacity of 30 million tons by FY30E. Furthermore, Additionally, management is optimistic about securing a position among the top five companies in terms of EBITDA/t. We expect Revenue/EBITDA to grow at a CAGR of 5.6%/14.0% respectively over FY24-FY26E. Our target EV/EBITDA multiple is 9.0x (unchanged) on FY26E EBITDA, hence we ascribe a target price of INR913, with **BUY** rating.

Financial Snapshot

Quarter end: March	FY22	FY23	FY24	FY25E	FY26E
Revenue (INR Mn.)	50,408	60,711	63,198	65,601	74,491
EBITDA (INR Mn.)	8,013	7,043	8,638	9,845	12,810
EBITDA Margins (%)	15.9	11.6	13.7	15.0	17.2
RPAT	4,262	3,308	4,243	5,361	6,385
PAT Margins (%)	8.5	5.4	6.7	8.2	8.6
EPS	36.2	28.1	36.1	45.6	54.3

Source: Company, CEBPL

Aug 02, 2024

CMP (Rs.)	862
Target Price (Rs.)	913
Potential Upside (%)	6.0

Company Info

BB Code	JKLC IN EQUITY
ISIN	INE786A01032
Face Value (Rs.)	5.0
52 Week High (Rs.)	998.4
52 Week Low (Rs.)	622.6
Mkt Cap (Rs bn)	101.4
Mkt Cap (\$ bn)	1.2
Shares o/s (Mn)/F.Float	117.7/53
FY24 EPS	36.1
FY26E EPS	54.3

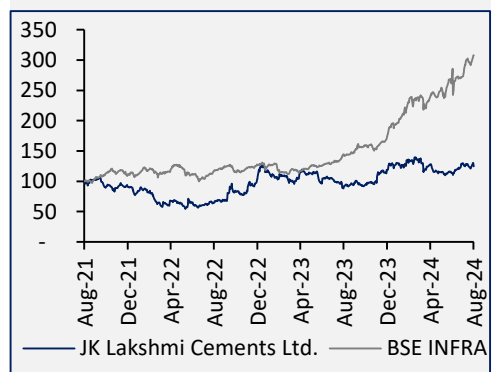
Shareholding Pattern (%)

	Jun-24	Mar-24	Dec-23
Promoters	46.34	46.34	46.31
FII's	11.34	11.29	10.83
DII's	25.35	25.83	27.57
Public	16.97	16.54	15.29

Relative Performance (%)

YTD	3Y	2Y	1Y
BSE INFRA	208.1	162.0	113.9
JKLC	24.5	93.6	38.3

Rebased Price Performance



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Sequential Operating Performance

Operating Metrics Rs./t	4QFY23	1QFY24	2QFY23	3QFY24	4QFY24	1QFY25
Sales Volume	2.66	2.53	2.53	2.35	2.55	2.32
Blended Realisation	6,500	6,456	5,742	6,749	6,462	6,226
Raw Material Cost	884	952	868	1,114	1,043	992
Employee Cost	323	385	370	415	333	377
Power & Fuel Cost	1,542	1,466	1,374	1,392	1,255	1,146
Freight & Handling Expense	1,327	1,306	1,125	1,332	1,258	1,227
Other Expenses	665	718	626	718	749	731
Total Costs	5,789	5,792	5,036	5,718	5,382	5,431
EBITDA	711	664	706	1,031	1,080	796

CEBPL Estimates vs Actual for Q1FY25

JK Lakshmi Ltd. (INR Mn.)	Q1FY25	Q1FY24	YoY(%)	Q4FY24	QoQ(%)	CEBPL Est.	Dev. (%)
Volumes	2.3	2.5	(8.3)	2.55	(9.0)	2.4	(4.2)
Revenues	14,445	16,333	(11.6)	16,478	(12.3)	15,325	(5.7)
RM Cost	2,303	2,408	-4.4	2,660	(13.4)	2,565	
Power and Fuel Cost	2,659	3,708	(28.3)	3,200	(16.9)	2,979	
Freight Exp	2,846	3,305	(13.9)	3,207	(11.3)	3,016	
EBITDA (INR Mn.)	1,846	1,679	9.9	2,755	(33.0)	2,290	-19.4
EBITDA Margin (%)	12.8	10.3	250 bps	16.7	(394)bps	14.9	(217)bps
Depreciation	469	470	(0.2)	492	(4.7)	642	
EBIT (INR Mn.)	2,298	1,347	70.6	2,443	(5.9)	1,802	27.5
EBIT Margin (%)	15.9	8.2	766 bps	14.8	109 bps	11.8	415 bps
Other Income	922	138	567.9	180	412.3	153	
Interest	190	219	-13.1	209	(9.1)	245	
PBT	2108	1,128	86.9	2,233	(5.6)	1557	
Tax	545	366	49.0	810	(32.7)	389	
PAT (INR Mn.)	1,563	762	105.1	1,424	9.8	1,168	33.8
Basic EPS (INR)	13.3	6.5	105.1	12.1	9.8	9.9	33.8

	Q1FY25	Q1FY24	YoY (%)	Q4FY24	QoQ (%)
NSR /t	6,226	6,456	(3.6)	6,462	(3.6)
Cement Cost /t	5,431	5,792	(6.2)	5,382	0.9
EBITDA/t	796	664	19.9	1,080	(26.4)

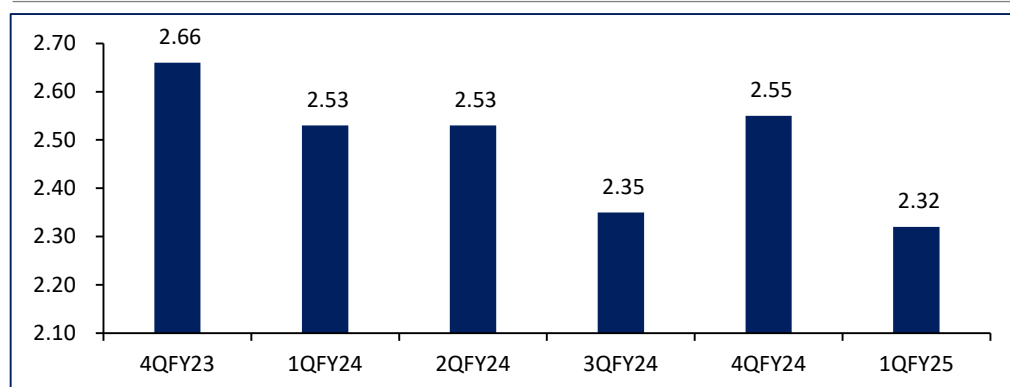
Source: Company, CEBPL

Change in estimates

Income Statement (INR Mn.)	FY25E			FY26E		
	Old	New	Dev. (%)	Old	New	Dev. (%)
Revenues	61,936	65,601	5.9	69,403	74,491	7.3
Gross Profit Margin (%)	70.2	69.1	(116)bps	72.7	70.1	(258)bps
EBIT	8,287	8,548	3.1	9,261	10,153	9.6
EBIT Margin (%)	13.4	13.0	(35)bps	13.3	13.6	29 bps
EPS	46.5	45.6	(2.0)	50.2	54.3	8.1

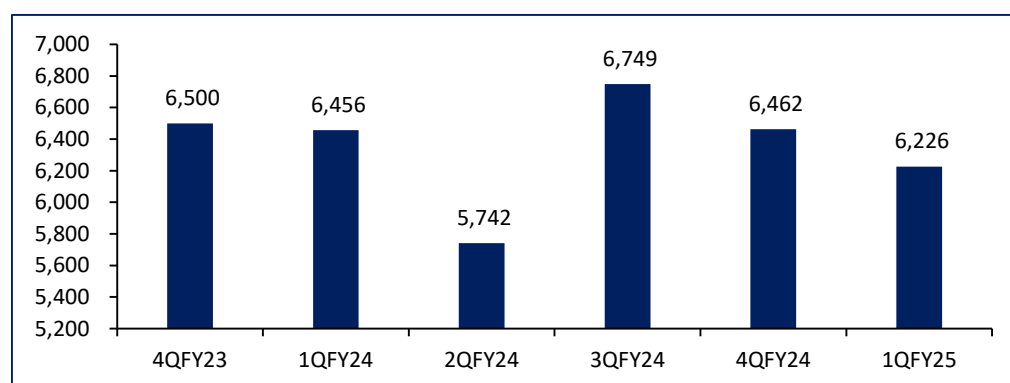
Source: Company, CEBPL

Sales Volume (MT)



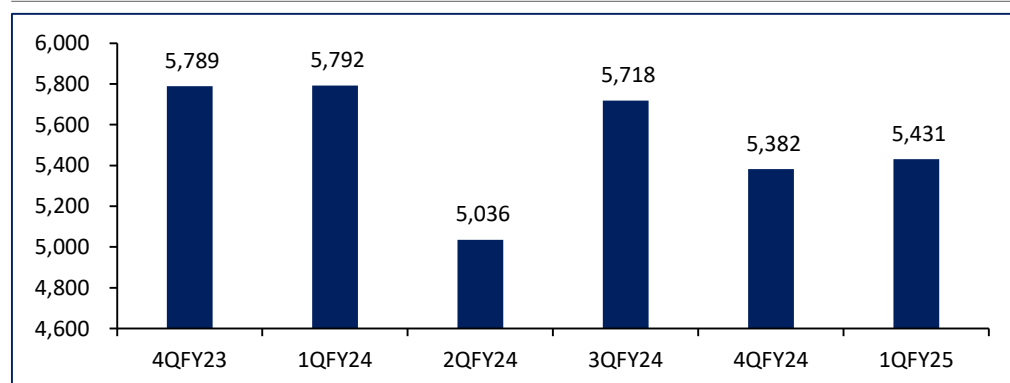
Source: Company, CEBPL

Sales Realisation per Tonne



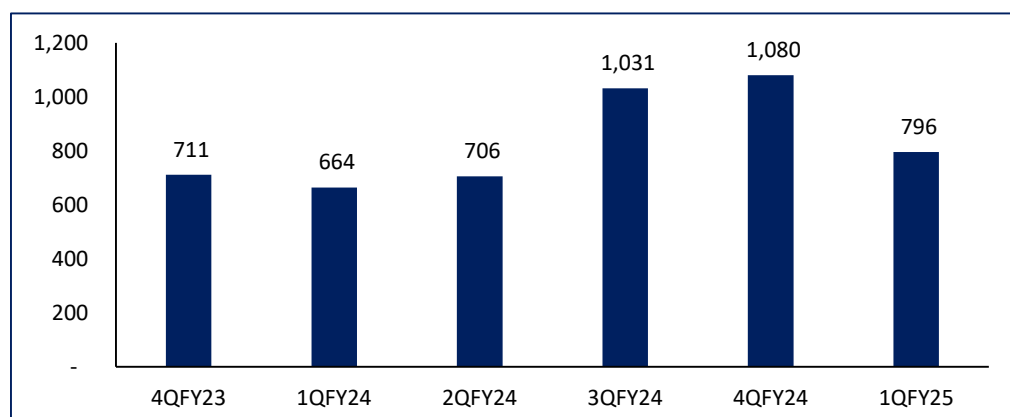
Source: Company, CEBPL

Total Cost per Tonne



Source: Company, CEBPL

EBITDA per Tonne



Source: Company, CEBPL

Management Call Highlights

- In Q1FY25, power and fuel costs were INR1,146/t, reflecting a decrease of 8.7% QoQ and 21.8% YoY. This reduction is primarily attributed to lower fuel expenses. The Annual Freight Rate (AFR) is currently at 4%, with plans to increase it to 16% by the end of FY25E.
- The company is also boosting its Waste Heat Recovery (WHR) capacity by 3.5 MW at Sirohi, which will become operational. Furthermore, the management has anticipated further reductions in power and fuel costs by approx. INR50-70/t.
- Freight expenses for the quarter were INR1,227/t, compared to INR1,258/t in Q4FY24. The company aims to further reduce freight expenses by adding railway sidings, expected to be operational in Q3-Q4 FY25E.
- The Company is executing a project to increase its Total Shareholder Return (TSR) from 4% to 16% in a phased approach at its Sirohi Cement Plant as part of its green initiatives. During the quarter, the company successfully commissioned a Waste Heat Recovery (WHR) system with a capacity of 3.5 MW at Sirohi.
- The average lead distance has decreased by 12 km. The average lead distance last year was 384 km, while it has been reduced to 372 km in the Q1FY25.
- In this quarter, the company's total sales on an individual basis amounted to 23.26 lakh tons, with 21.68 lakh tons from cement sales and 1.58 lakh tons from clinker sales. On a consolidated basis, the total sales reached 30.37 lakh tons, comprising 27.89 lakh tons from cement sales and 2.48 lakh tons from clinker sales.
- The company aims to achieve utilization levels of 60% by the end of FY25, with a peak utilization target of 75% at the upper band.
- In July, prices experienced a further decline of INR5 to INR7 due to sluggish demand, which is typically seasonal in the second quarter across all markets.

Financial Summary (Standalone in INR Mn)

Income Statement (INR Mn)	FY22	FY23	FY24	FY25E	FY26E
Revenue	50,408	60,711	63,198	65,601	74,491
Gross profit	38,025	44,893	45,523	45,309	52,222
EBITDA	8,013	7,043	8,638	9,845	12,810
Depreciation	1,905	1,935	1,950	2,730	3,553
EBIT	6,780	5,730	7,328	8,548	10,153
Other income	673	622	640	1,433	896
Interest expense	963	915	872	922	751
PAT	4,262	3,308	4,243	5,361	6,385
EPS (INR)	36.2	28.1	36.1	45.6	54.3

Balance Sheet (INR Mn.)	FY22	FY23	FY24	FY25E	FY26E
Tangible fixed assets	27,242	27,020	26,319	35,589	42,036
Capital Work in Progress	1,121	649	3,739	3,091	2,493
Investments	9,379	9,242	14,501	12,070	14,115
Cash & Cash equivalents	3,388	3,347	2,291	1,346	1,522
Loans & Advances and Other Assets	2,003	4,244	4,208	5,819	7,345
Net Working Capital	2,273	2,489	3,346	3,777	4,172
Total assets	45,407	46,992	54,403	61,690	71,682
Shareholder's funds	24,524	27,238	30,815	36,176	42,561
Borrowings	7,795	8,112	7,086	7,872	9,311
Deffered Tax	943	1,596	2,683	3,149	3,352
Other Liabilities & Provisions	12,145	10,046	13,819	14,493	16,457
Total equity & liabilities	45,407	46,992	54,403	61,690	71,682
Capital Employed	30,452	33,993	36,113	41,367	48,680
Invested Capital	25,942	29,997	30,084	36,931	44,665

Cash Flows (INR Mn.)	FY22	FY23	FY24	FY25E	FY26E
Cash flows from Operations	5,399	4,539	8,156	9,910	14,406
Cash flows from Investing	(2,073)	(482)	(5,870)	(9,850)	(9,512)
Cash flows from financing	(3,112)	(3,340)	(2,788)	(137)	688

Ratio Analysis	FY22	FY23	FY24	FY25E	FY26E
Growth Ratios (%)					
Revenues	15.0	20.4	4.1	3.8	13.6
Gross Profit	15.2	18.1	1.4	(0.5)	15.3
EBITDA	1.5	(12.1)	22.6	14.0	30.1
EBIT	1.2	(15.5)	27.9	16.7	18.8
Margin Ratios (%)					
Gross Profit Margin	75.4	73.9	72.0	69.1	70.1
EBITDA Margin	15.9	11.6	13.7	15.0	17.2
EBIT Margin	13.5	9.4	11.6	13.0	13.6
Profitability (%)					
Return on equity	17.4	12.1	13.8	14.8	15.0
Return on invested capital	21.0	14.1	17.0	17.0	16.0
Return on capital employed	22.3	16.9	20.3	20.7	20.9
Valuation					
OCF / IC (%)	20.8	15.1	27.1	26.8	32.3
EV / EBITDA (x)	12.0	13.8	10.6	9.7	7.4
EV/IC (x)	3.7	3.2	3.0	2.6	2.1

Source: Company, CEBPL

Historical recommendations and target price: JKLC



JK Lakshmi Cements Ltd

1.	30-07-2021	NEUTRAL,	Target Price 717
2.	02-11-2021	OUTPERFORM,	Target Price, 712
3.	04-02-2022	OUTPERFORM,	Target Price, 648
4.	13-02-2023	OUTPERFORM,	Target Price, 878
5.	22-05-2023	OUTPERFORM,	Target Price, 921
6.	29-07-2023	OUTPERFORM,	Target Price, 725
7.	07-11-2023	ADD,	Target Price, 895
8.	14-02-2024	ADD,	Target Price, 955
9.	27-05-2024	BUY,	Target Price, 872
10.	02-08-2024	BUY,	Target Price 913

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BUY	The security is expected to generate greater than 5% to less than 25% returns over the next 12 months
REDUCE	The security expected to show downside or upside returns by 0% to 5% over the next 12 months
SELL	The security is expected to show below 0% over the next 12 months

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