

Muted volume growth guidance for FY25E

JK Lakshmi Cement's Q2FY25 volumes came in at 1.9mnt, down 14.3% YoY and 19.8% QoQ, resulting in revenues of INR11,413mn, a decline of 21.4% YoY and 21.0% QoQ. The volume decline was attributed to longer layoffs during the election period and extended monsoon. EBITDA/t for the quarter was INR330/t, down 59.9% YoY and 58.5% QoQ, the drop mainly due to lower realizations. PAT for Q2FY25 stood at INR75mn, down 90.9% YoY and 95.2% QoQ, with an EPS of INR0.6. During Q2FY25, the company's Net Debt to EBITDA ratio was 0.58x, and Net Debt to Equity stood at 0.13x. 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.

- Expansion Plan-** The management has outlined a capex of INR5,000mn for FY25E, INR7,000mn for FY26E, and INR8,000mn for FY27E. The company is undertaking an expansion to add 4.6mnt of cement capacity and approximately 2 to 2.3mnt of clinker capacity at its Durg plant. Initially, the focus will be on the Durg clinkerization and grinding unit in UP, followed by two additional grinding units at other locations. Management anticipates that the 1st phase, including clinkerization and cement capacity will be operational by FY26-27E. So far, limited expenditure has been incurred on the Durg expansion. The sewer grinding unit, expected to add 1.35mnt of capacity, is projected to be commissioned Q4FY25. The Durg expansion will likely require another two to three years to complete. Meanwhile, the Udaipur expansion is nearly finished, with only minor tasks remaining. The Railway Siding project is underway and expected to be completed by the Q1FY26E. JK Lakshmi Cement is actively working towards surpassing its targeted capacity of 30mnt by FY30E.
- Prices Started Improving-** In Q2FY25, the company's realization stood at INR6,136, marking a decline of 8.3% YoY and 1.4% QoQ. The largest price drops occurred in the East, West, and North regions, while the South and Northeast regions saw smaller declines. The company's price decrease is below the industry average. In response to depressed prices, the company chose not to sell in certain non-core markets where prices fell below variable costs. Since the Q3 average, prices have shown some improvement, beginning to rise in September and continuing with a slight upward trend in October. Following Diwali, demand is anticipated to improve, potentially leading to further price increases.
- Total cost/t came at INR5,806/t-** During the quarter, total cost/t declined by 1.1% YoY but rose by 6.9% QoQ. The YoY decrease in total cost/t was primarily due to reduced power and fuel costs, as well as lower freight expenses. Power and fuel costs/t for the quarter were INR1,324/t, a 17.3% decrease from the previous year and 47% of Renewable energy is being used in Q2FY25. This reduction was driven by lower fuel expenses and the company's focus on alternative fuels (TSR) and renewable energy. Management anticipates further reductions in power and fuel costs by using other alternatives. Freight expenses/t for the quarter were INR1,269/t, down 3.3% YoY, largely due to efforts to reduce lead distance.

Outlook and Valuation: The cement sector outlook appears highly promising for the coming year, driven by the government's strong focus on infrastructure development and increased budgetary support for the sector. The company's management remains dedicated to its ambitious capital expenditure plans, targeting a capacity of 30mnt by FY30E. Additionally, the company is focused on expanding its market share, though volume growth is expected for coming years. We expect Volume/Revenue/EBITDA to grow at a CAGR of 0.5%/0.9%/8.7% respectively over FY24-FY27E. Our target EV/EBITDA multiple is 9.0x (unchanged) on Sept-26E EBITDA, hence we ascribe a target price of INR703, reducing our rating to **Sell**.

Financial Snapshot

Quarter end: March	FY23	FY24	FY25E	FY26E	FY27E
Revenue (INR Mn.)	60,711	63,198	54,713	58,822	64,956
EBITDA (INR Mn.)	7,043	8,638	5,535	7,917	11,108
EBITDA Margins (%)	11.6	13.7	10.1	13.5	17.1
RPAT	3,308	4,243	2,825	4,101	6,336
PAT Margins (%)	5.4	6.7	5.2	7.0	9.8
EPS	28.1	36.1	24.0	34.8	53.8

Source: Company, CEBPL

Nov 10, 2024

CMP (Rs.)	765
Target Price (Rs.)	703
Potential Downside (%)	(8.3)

*CMP as on 8th Nov 2024

Company Info

BB Code	JKLC IN EQUITY
ISIN	INE786A01032
Face Value (Rs.)	5.0
52 Week High (Rs.)	998.4
52 Week Low (Rs.)	710.4
Mkt Cap (Rs bn)	90.0
Mkt Cap (\$ bn)	1.1
Shares o/s (Mn)/F.Float	117.7/53
FY24 EPS	36.1
FY27E EPS	53.8

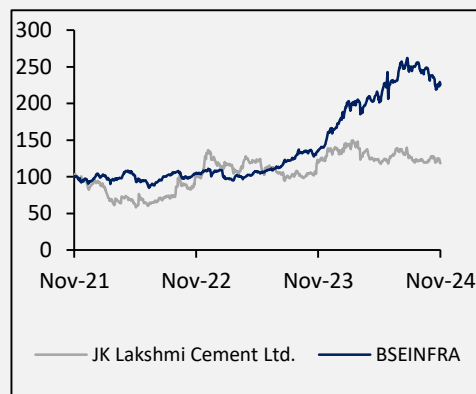
Shareholding Pattern (%)

	Sep-24	Jun-24	Mar-24
Promoters	46.34	46.34	46.34
FII's	11.53	11.34	11.29
DII's	24.95	25.35	25.83
Public	17.18	16.97	16.54

Relative Performance (%)

YTD	3Y	2Y	1Y
BSE INFRA	125.2	114.9	65.7
JKLC	18.7	15.1	(0.2)

Rebased Price Performance



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Sequential Operating Performance

Operating Metrics Rs./t	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25
Sales Volume	2.53	2.17	2.35	2.55	2.32	1.86
Blended Realisation	6,456	6,694	6,749	6,462	6,226	6,136
Raw Material Cost	952	1,012	1,114	1,043	992	1,220
Employee Cost	385	432	415	333	377	516
Power & Fuel Cost	1,466	1,602	1,392	1,255	1,146	1,324
Freight & Handling Expense	1,306	1,312	1,332	1,258	1,227	1,269
Other Expenses	718	730	718	749	731	870
Total Costs	5,792	5,871	5,718	5,382	5,431	5,806
EBITDA	664	823	1,031	1,080	796	330

CEBPL Estimates vs Actual for Q2FY25

JK Lakshmi Ltd. (INR Mn.)	Q2FY25	Q2FY24	YoY(%)	Q1FY25	QoQ(%)	CEBPL Est.	Dev. (%)
Volumes	1.9	2.2	(14.3)	2.3	(19.8)	2.0	(7.0)
Revenues	11,413	14,526	(21.4)	14,445	(21.0)	12,500	(8.7)
COGS	3,400	3,896	-12.7	4,524	(24.8)		
Power and Fuel Cost	2,463	3,476	(29.2)	2,659	(7.4)		
Freight Exp	2,360	2,848	(17.1)	2,846	(17.1)		
Employee Cost	959	937	2.3	875	9.7		
Other Expenses	1,618	1,584	2.1	1,696	(4.6)		
EBITDA (INR Mn.)	613	1,785	(65.6)	1,846	(66.8)	850	-27.8
EBITDA Margin (%)	5.4	12.3	(692)bps	12.8	(740)bps	6.8	(143)bps
Depreciation	498	476	4.6	469	6.2		
EBIT (INR Mn.)	115	1,309	(91.2)	1,377	(91.6)	350	-67.0
EBIT Margin (%)	1.0	9.0	(800)bps	9.5	(852)bps	2.8	(179)bps
Other Income	119	151	(21.3)	922	(87.1)		
Interest	177	228	-22.4	190	(7.0)		
PBT	57	1232	-95.4	2108	(97.3)		
Tax	-18	402	(104.5)	545	(103.3)		
PAT (INR Mn.)	75	830	(90.9)	1,563	(95.2)	135	-44.1
Basic EPS (INR)	0.6	7.1	(90.9)	13.3	(95.2)	1.2	-44.3

	Q2FY25	Q2FY24	YoY (%)	Q1FY25	QoQ (%)
NSR /t	6,136	6,694	(8.3)	6,226	(1.4)
Cement Cost /t	5,806	5,871	(1.1)	5,431	6.9
EBITDA/t	330	823	(59.9)	796	(58.5)

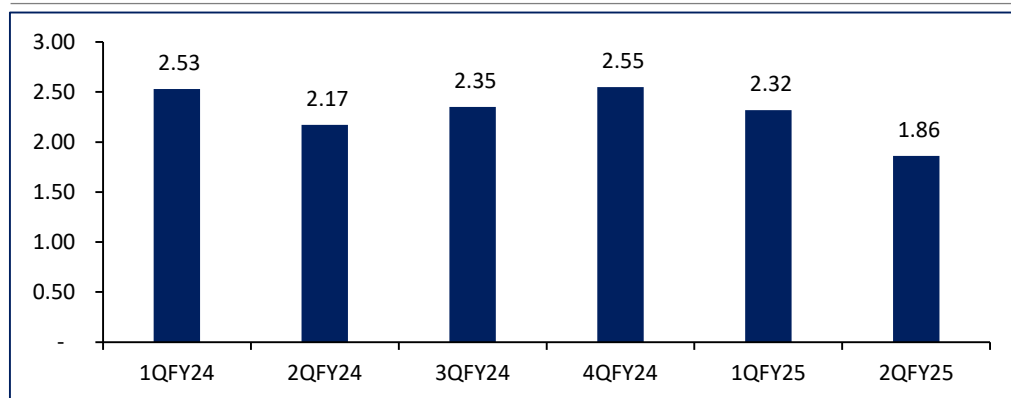
Source: Company, CEBPL

Change in estimates

Income Statement (INR Mn.)	FY25E			FY26E			FY27E
	Old	New	Dev. (%)	Old	New	Dev. (%)	New
Revenues	58,254	54,713	(6.1)	60,128	58,822	(2.2)	64,956
Gross Profit Margin (%)	70.2	71.0	77 bps	72.7	71.7	(100)bps	70.5
EBIT	4,926	4,675	(5.1)	5,979	6,144	2.8	9,104
EBIT Margin (%)	8.5	8.5	4 bps	9.9	10.4	54 bps	14.0
EPS	22.0	24.0	9.1	33.5	34.8	4.0	53.8

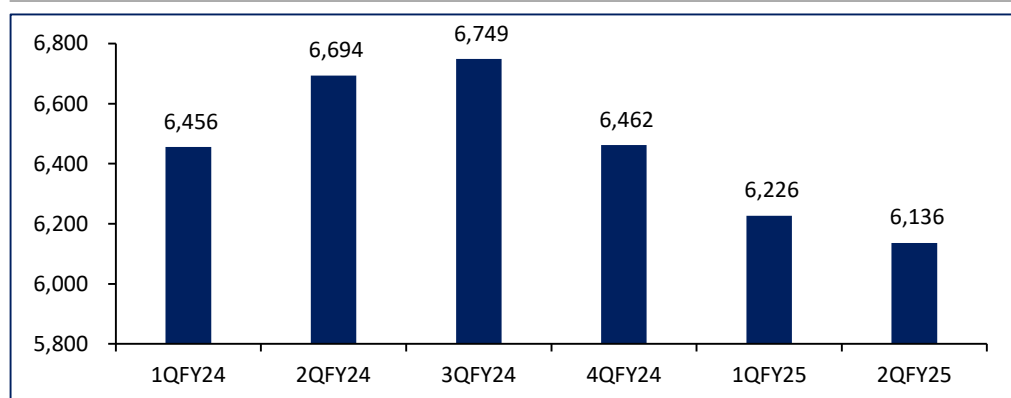
Source: Company, CEBPL

Sales Volume (MT)



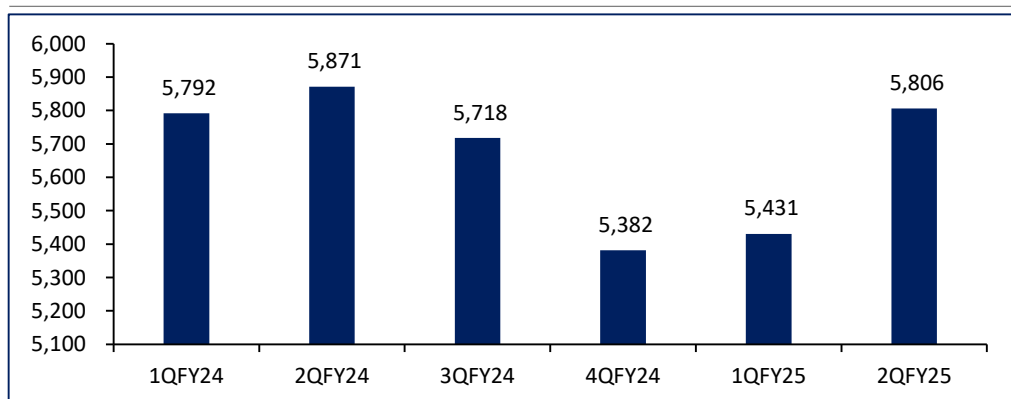
Source: Company, CEBPL

Sales Realisation per Tonne



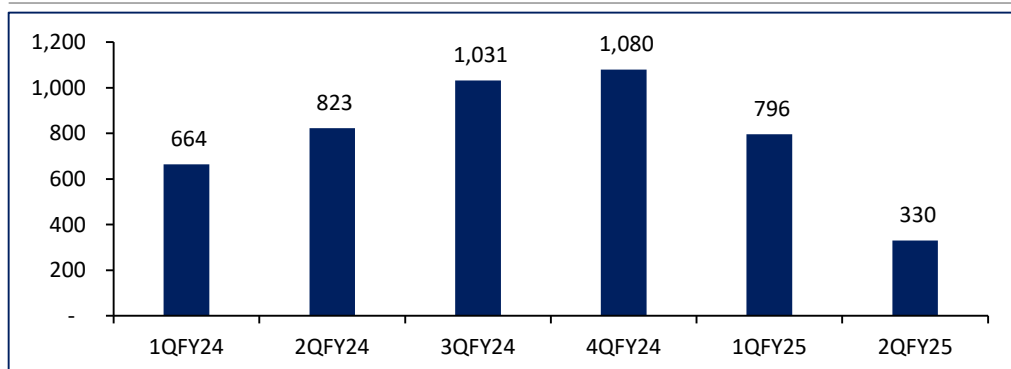
Source: Company, CEBPL

Total Cost per Tonne



Source: Company, CEBPL

EBITDA per Tonne



Source: Company, CEBPL

Management Call Highlights

- The company has maintained its market share across several regions, including the West, North, and East, where it sells approximately 70% of its raw cement. In certain markets, the company has even managed to increase its market share.
- The company deliberately chose not to sell in certain non-core markets with depressed prices, focusing instead on consolidating and enhancing its market share in core markets.
- On July 31st, the Board approved the consolidation of the cement business through the merger of three subsidiaries of JK Lakshmi. This merger is anticipated to be completed in the second half of the 2025 calendar year.
- The company's operations, primarily concentrated in the Western and Northern regions of India, were affected by subdued demand and declining prices.
- Blended cement now accounts for 66% of the company's production. The lead distance has also been significantly reduced to 374 kilometers, which is approximately 13 kilometers lower than the same quarter last year.
- Renewable energy accounted for approximately 47% of the company's energy usage in 2QFY25, with about 20% derived from solar and wind sources.
- Clinker utilization stood at 83%, with Udaipur's clinker utilization at 58%. Cement utilization at Udaipur was 65%, and the overall cement utilization in Udaipur over three decades reached 37%.
- Non-cement revenue for the quarter amounted to INR1,260mn, with margins lower than usual, at approximately 5%. Of the INR 1,260mn, Ready-Mix Concrete (RMC) contributed around INR660 mn.

Financial Summary (Standalone in INR Mn)

Income Statement (INR Mn)	FY23	FY24	FY25E	FY26E	FY27E
Revenue	60,711	63,198	54,713	58,822	64,956
Gross profit	44,893	45,523	38,847	42,169	45,823
EBITDA	7,043	8,638	5,535	7,917	11,108
Depreciation	1,935	1,950	2,190	2,484	2,848
EBIT	5,730	7,328	4,675	6,144	9,104
Other income	622	640	1,329	711	844
Interest expense	915	872	814	676	655
PAT	3,308	4,243	2,825	4,101	6,336
EPS (INR)	28.1	36.1	24.0	34.8	53.8

Balance Sheet (INR Mn.)	FY23	FY24	FY25E	FY26E	FY27E
Tangible fixed assets	27,020	26,319	29,129	33,645	38,796
Capital Work in Progress	649	3,739	3,000	2,000	2,000
Investments	9,242	14,501	14,501	14,501	14,501
Cash & Cash equivalents	3,347	2,291	3,490	3,834	4,486
Loans & Advances and Other Assets	4,244	4,208	4,554	4,657	4,811
Net Working Capital	2,489	3,346	2,553	2,692	3,072
Total assets	46,991	54,403	57,228	61,329	67,666
Shareholder's funds	27,238	30,815	33,640	37,741	44,077
Borrowings	8,112	7,086	7,086	7,086	7,086
Deffered Tax	1,596	2,683	2,683	2,683	2,683
Other Liabilities & Provisions	10,046	13,819	13,819	13,819	13,819
Total equity & liabilities	46,991	54,403	57,228	61,329	67,666
Capital Employed	33,993	36,113	39,314	42,777	47,995
Invested Capital	29,997	30,084	32,824	36,943	41,509

Cash Flows (INR Mn.)	FY23	FY24	FY25E	FY26E	FY27E
Cash flows from Operations	4,539	8,156	7,975	8,626	11,374
Cash flows from Investing	(482)	(5,870)	(3,671)	(6,289)	(7,156)
Cash flows from financing	(3,340)	(2,788)	(814)	(676)	(655)

Ratio Analysis	FY23	FY24	FY25E	FY26E	FY27E
Growth Ratios (%)					
Revenues	20.4	4.1	(13.4)	7.5	10.4
Gross Profit	18.1	1.4	(14.7)	8.5	8.7
EBITDA	(12.1)	22.6	(35.9)	43.0	40.3
EBIT	(15.5)	27.9	(36.2)	31.4	48.2
Margin Ratios (%)					
Gross Profit Margin	73.9	72.0	71.0	71.7	70.5
EBITDA Margin	11.6	13.7	10.1	13.5	17.1
EBIT Margin	9.4	11.6	8.5	10.4	14.0
Profitability (%)					
Return on equity	12.1	13.8	8.4	10.9	14.4
Return on invested capital	14.1	17.0	11.1	12.9	16.8
Return on capital employed	16.9	20.3	11.9	14.4	19.0
Valuation					
OCF / IC (%)	15.1	27.1	24.3	23.4	27.4
EV / EBITDA (x)	12.2	9.3	14.3	10.0	7.0
EV/IC (x)	2.9	2.7	2.4	2.1	1.9

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
11.	10-11-2024	SELL,	Target Price 703

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HOLD	The security expected to show upside or downside returns by 14% to -5% overhead 24 months
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