

November 6, 2023

RESULT REPORT Q2 FY24 | Sector: Cement

JK Lakshmi Cement

NSR will be vital for revenue growth

Result Synopsis

JK Lakshmi Cement (JKLC) reported in-line performance with an EBITDA margin of 12.3% in Q2FY24 against 10.6% in Q2FY23. EBITDA came at Rs705/te, registering a +17% y/y increase on account of better NSR, offsetting the stable total cost/te in Q2FY24. Standalone volume and NSR grew by +10/2% y/y, resulting in revenue growth of +12% y/y during the quarter. Furthermore, EBITDA/PAT surged by +29/41% y/y in Q2FY24, driven by strong revenue. JKLC plans to achieve a 50% green energy share. This includes adding 3.5MW WHRS and increasing the TSR from 4% to 16% at the Sirohi Plant. Additionally, they've partnered with a private player to supply 40MW of solar power at the Durg unit, taking the RE share to 80% from 36% in Q2FY24.

Standalone cement/clinker utilization reached to +80/100% offers limited headroom for volume growth. To address this, JKLC plans to add 1.35MTPA GU at its existing Surat unit by H2FY26. We modeled ~4% CAGR volume growth on a standalone basis over FY24-26E, and incremental volume will be coming from UCWL expansion & outsourced units. Furthermore, we believe NSR driven by geo-mix and premium sales will be vital for revenue growth in the near term. To address the volume growth concerns, JKLC set a long-term target of 30MTPA through brownfield & greenfield expansion in Durg, Kutch, Rajasthan with potential inorganic opportunities. Going forward, we anticipate that JKLC will generate a standalone OCF of ~Rs22bn and UCWL should add Rs1-2bn over FY24-26E, supporting the B/S against ongoing capex of Rs18.5bn over FY24-25E. As a result, Net debt to EBITDA is expected to remain at a comfortable level on a console basis, while management targets to maintain the Net debt/EBITDA below 3x during the expansion phase. We value JKLC on a SOTP basis and rolled forward our estimates to FY26. Standalone entity valued at 7x EV/EBITDA and subsidiary UCWL valued at US\$100 EV/te on FY26E arriving at a TP of Rs855 with an ADD rating.

Result Highlights

- JKLC reported an in-line volume growth of +10% y/y and NSR growth of +2% y/y (+5% above YSECe) resulted in revenue of Rs14.5bn a growth of +12% y/y (+5% above YSECe) in Q2FY24.
- Furthermore, the gain from better NSR had largely compensated the total cost/te, which came flat y/y and q/q both (+5% above YSECe) resulting in EBITDA/te of Rs705 (YSECe Rs670/te), up by 17% y/y and 23% q/q.
- EBITDA came at Rs1.78bn in Q2FY24 up by 29% y/y and 7% q/q, translates in EBITDA margin of 12.3% (in-line) v/s 10.6% in Q2FY23
- PAT came in at Rs830mn up by 41% y/y and 11% q/q (YSECe Rs743mn)
- In Oct'23, JKLC commissioned 1.5MTPA of clinker Line II in UCWL and the work of 2.5MTPA GU is progressing as per the schedule.

Exhibit 1: Actual vs estimates

Rs Mn	Actual	Estimate		% Variation		Remarks
		YSec	Consensus	YSec	Consensus	
Sales	14,526	13,735	16,918	5.8	(14.1)	Better NSR offsetting stable cost
EBITDA	1,785	1,689	2,277	5.7	(21.6)	
Margin (%)	12.3	12.3	13.5	-1 bps	-117 bps	
Adj. PAT	830	743	1,158	11.7	(28.3)	

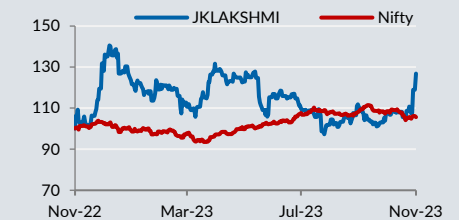
Source: Company, YES Sec

Reco	: NEUTRAL
CMP	: Rs 794
Target Price	: Rs 855
Potential Return	: +8%

Stock data (as on Nov 6, 2023)

Nifty	19,412
52 Week h/l (Rs)	897 / 546
Market cap (Rs/USD mn)	87647 / 1054
Outstanding Shares (mn)	118
6m Avg t/o (Rs mn):	215
Div yield (%):	0.6
Bloomberg code:	JKLC IN
NSE code:	JKLAKSHMI

Stock performance



	1M	3M	1Y
Absolute return	17.6%	24.4%	26.8%

Shareholding pattern (As of Sep'23 end)

Promoter	46.3%
FII+DII	38.2%
Others	15.5%

Δ in earnings estimates

	FY24E	FY25E
EPS (New)	38.0	44.8
EPS (Old)	50.5	61.3
% Change	-25%	-27%

Δ in stance

(1-Yr)	New	Old
Rating	NEUTRAL	BUY
Target Price	855	800

Financial Summary

(Rs mn)	FY24E	FY25E	FY26E
Revenue	64,303	66,364	69,444
Growth	5.9	3.2	4.6
EBITDA	8,254	9,554	11,508
sMargin	12.8	14.4	16.6
Adj PAT	4,351	5,313	6,976
Growth	31.5	22.1	31.3
EPS	37.0	45.1	59.3
ND/EBITDA	0.4	0.2	(0.5)
ROE	14.0	14.8	16.4
ROCE	15.4	17.8	20.3
EV/EBITDA	11.4	9.7	7.4

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Exhibit 2: Quarterly snapshot (Standalone)

Particulars (Rs m)	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	y/y (%)	q/q (%)	FY23	FY22	y/y (%)
Net Revenue	13,027	14,885	17,289	16,333	14,526	11.5	(11.1)	60,711	50,408	20.4
Total Expenses	11,640	13,289	15,398	14,657	12,741	9.5	(13.1)	53,668	42,395	26.6
COGS	3,531	3,323	5,137	4,851	3,896	10.3	(19.7)	15,817	12,383	27.7
Employee Expenses	833	877	860	976	937	12.5	(4.0)	3,491	3,264	7.0
Power & fuel	3,332	4,345	4,103	3,708	3,476	4.3	(6.3)	15,439	10,656	44.9
Freight Exp	2,494	2,942	3,530	3,305	2,848	14.2	(13.8)	12,086	10,428	15.9
Other Expenses	1,451	1,802	1,768	1,818	1,584	9.2	(12.8)	6,834	5,663	20.7
EBITDA	1,386	1,596	1,891	1,676	1,785	28.8	6.5	7,043	8,013	(12.1)
EBITDA (%)	10.6	10.7	10.9	10.3	12.3	165 bps	203 bps	11.6	15.9	-430 bps
D&A	481	480	501	470	476	(1.0)	1.2	1,935	1,905	1.6
Other Income	214	156	178	139	151	(29.5)	8.8	622	673	(7.5)
Interest Expense	226	247	195	229	228	0.9	(0.5)	915	963	(5.0)
Exceptional/EO items	-	-	-	-	-	-	-	-	234	(100.0)
Share JV/Associates	-	-	-	-	-	-	-	-	-	-
EBT	894	1,025	1,373	1,115	1,232	37.9	10.5	4,815	5,583	(13.8)
Tax	304	289	400	366	402	32.2	9.7	1,507	1,321	14.1
Reported PAT	590	736	973	749	830	40.8	10.9	3,308	4,262	(22.4)
Less: Minority Interest	-	-	-	-	-	-	-	-	-	-
Adj. PAT	590	736	973	749	830	40.8	10.9	3,308	4,496	(26.4)

Source: Company, YES Sec

Exhibit 3: Quarterly Operational Performance Analysis (Standalone)

Particulars (Rs m)	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	y/y (%)	q/q (%)	FY23	FY22	y/y (%)
Total Volumes (MMT)	2.3	2.6	3.1	2.9	2.5	9.8	(13.4)	10.8	10.1	6.6
NSR/te (Blended)	5,651	5,716	5,644	5,584	5,737	1.5	2.7	5,643	4,994	13.0
RM/te	1,532	1,276	1,677	1,658	1,539	0.4	(7.2)	1,470	1,227	19.9
Employees/te	361	337	281	334	370	2.4	11.0	325	323	0.3
Power/te	1,446	1,668	1,340	1,268	1,373	(5.0)	8.3	1,435	1,056	35.9
Freight/te	1,082	1,130	1,152	1,130	1,125	4.0	(0.5)	1,123	1,033	8.7
Others/te	629	692	577	621	626	(0.6)	0.7	635	561	13.2
Opex/te (Blended)	5,050	5,103	5,027	5,011	5,032	(0.4)	0.4	4,989	4,200	18.8
EBITDA/te (Blended)	601	613	617	573	705	17.3	23.1	655	794	(17.5)

Source: Company, YES Sec

KEY CON-CALL HIGHLIGHTS

- Management indicated that the eastern market would continue to see robust demand and will drive double-digit volume growth. In Q3FY24, East NSR will improve by Rs50-100/bag sequentially.
- In Q2FY24, the Trade mix increased to 62% against 55% in Q1FY23 out of which 23% was premium cement sales; blended cement sales were at 65% (66% in Q1FY24) and targeting 75% in near-term.
- JKLC reported non-cement revenue of Rs1.3bn which includes RMC revenue of Rs630mn, while the margins for non-cement business declined to 3% in Q2FY24 as compared to 4% in Q1FY24 (~5% in Q4FY23).
- In Q2FY24, Kiln fuel consumption cost was at Rs2.04kcal/kg against Rs2.37kcal/kg in Q1FY24 and 2.42kcal/kg in Q4FY23. Further, management guided kiln fuel cost to reach at Rs1.9kcal/kg will result in ~5% decline in P&F cost in Q3FY24.
- JKLC holds 3months of fuel inventories.
- Ongoing expansion in UCWL is as per schedule and 2.5MTPA GU expected to be commissioned by Q2FY25, while the clinker line of 1.5MTPA commissioned in Oct'23. Additionally, the commissioning gap between the clinker and GU will result in higher clinker sales in near-term.
- Currently JKLC is utilizing 2 outsourced capacities in Punjab and Gujarat which will be receive incremental clinker from the new clinker UCWL capacity additionally, will fulfil JKLC clinker requirement, which will result in higher volumes.
- Standalone gross debt as of Jun'23 stands at Rs6.8bn with cash balance of Rs1.4bn. Whereas, console gross debt stands at Rs19.75bn with cash balance of Rs8bn is expected to be remained elevated on account of ongoing capex.
- Management guided standalone gross debt to reach Rs10bn by FY24 end, while cash balance of Rs1.4bn expected remain the same.
- Management reiterated its EBITDA target of Rs1000/te with additional savings of Rs250-300/te of which 60% is expected to achieve from improving NSR (product mix & premiumization) and rest is expected from logistic optimization & higher AFR usage.
- Management revised its console volume growth guidance to 12-15% y/y in FY24 supported by UCWL upcoming clinker capacity coupled with outsourcing the cement grinding of un-utilized clinker. Trimmed guidance to 19%/y/y growth as grinding capacity for UCWL got delayed.
- In Q2FY24, JKLC entered into a private player partnership with a holding of 26% stake and sourcing 40MW of solar energy for its Durg unit, taking the RE share to 80% v/s 36%.
- JKLC is implementing an AFR processing plant to enhance its TSR from 4% to 16% (10% by FY24 end) in a phased manner at its Sirohi unit, also enhancing WHRS capacity by 3.5MW to be operationalized by Q4FY24. Management also plans to add an AFR processing plant at UCWL and Durg in near term.
- JKLC aspires to reach 30 MTPA in near-term through brownfield expansion at existing capacity & greenfield expansion at the recently acquired limestone reserve in Kutch & Rajasthan. Also, JKLC operationalized its railway siding project at Durg plant, which will provide access in the high price market of the east and also will reduce the raw material cost by providing better connectivity from sourcing place.
- Standalone capex guidance will be ~Rs5bn each for FY24/25E and UCWL will spend ~Rs7.5bn in FY24 and Rs1bn in FY25 for all the announced and ongoing expansion.

Exhibit 4: Annual Operational Performance Estimates (Standalone)

Particulars (Rs m)	FY22	FY23	FY24E	FY25E	FY26E
Total Volumes (MMT)	10.1	10.8	11.3	11.7	12.2
Utilization (%)	74%	80%	85%	89%	84%
Cement Realization/te	4,753	5,185	5,696	5,657	5,638
Net Realization/te (Blended)	4,994	5,643	5,697	5,689	5,670
RM/te	1,227	1,470	1,529	1,425	1,337
Power/te	1,056	1,435	1,338	1,290	1,262
Freight/te	1,033	1,123	1,129	1,187	1,189
Employees/te	323	325	350	366	366
Others/te	561	635	620	602	577
Opex/te (Blended)	4,200	4,989	4,966	4,870	4,730
EBITDA/te (Blended)	794	655	731	819	940

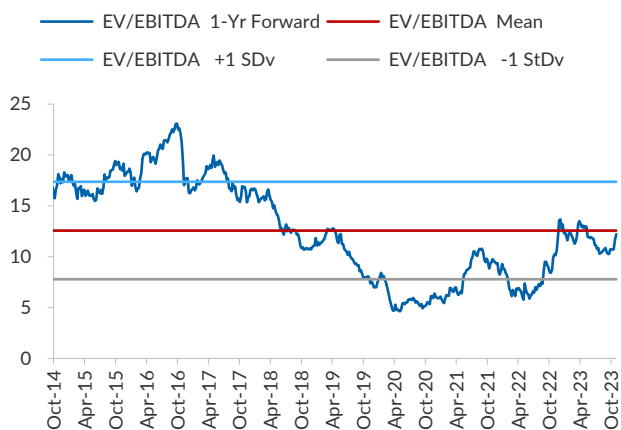
Source: Company, YES Sec

Exhibit 5: Key Estimate Revision

(Rs m)	FY24E			FY25E		
	Old	New	Change	Old	New	Change
Revenues	62,789	64,303	2%	65,958	66,364	1%
EBITDA	10,072	8,254	-18%	11,344	9,554	-16%
PAT	5,947	4,351	-27%	7,212	5,313	-26%
EPS	50.5	37.0	-27%	61.3	45.1	-26%

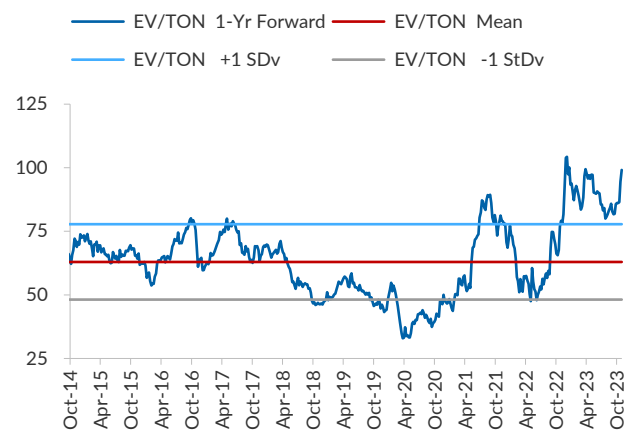
Source: Company, YES Sec

Exhibit 6: 1-yr forward EV/EBITDA band



Source: Company, YES Sec

Exhibit 7: 1-yr forward EV/te (\$) band



Source: Company, YES Sec

FINANCIALS

Exhibit 8: Balance Sheet (Standalone)

Y/e 31 Mar (Rs m)	FY22	FY23	FY24E	FY25E	FY26E
Equity capital	589	589	589	589	589
Reserves	23,935	26,649	30,558	35,430	41,965
Net worth	24,524	27,237	31,147	36,019	42,553
Other LT Liabilities	3,599	4,055	4,055	4,055	4,055
LT provision.	111	156	156	156	156
Minority interest	-	-	-	-	-
Long-term Borrowing	7,742	5,564	7,564	5,564	3,564
Deferred tax liabilities. (net)	943	1,596	1,596	1,596	1,596
Current Liabilities					
Trades Payables	2,983	5,120	4,129	4,190	4,202
Short-term Borrowing	1,887	2,548	4,048	3,268	2,801
Other current liabilities	6,449	5,785	5,785	5,785	5,785
Short Term Provision	153	50	50	50	50
Total Liabilities	48,390	52,112	58,530	60,683	64,763
Assets					
Total Net Block	27,236	27,068	25,963	24,858	25,904
CWIP & Other Assets	1,127	654	4,654	8,654	6,404
Investments	3,899	4,141	7,643	7,643	7,643
Other Non-current Asset	793	1,416	1,416	1,416	1,416
Deferred tax asset (net)	-	-	-	-	-
Current Assets					
Inventories	4,912	7,004	7,316	7,428	7,521
Trades Receivables	345	605	489	511	531
Other current assets	5,480	5,102	5,102	6,990	6,990
Short Term Loans & advances	1,210	2,775	2,775	887	887
Cash & Bank Balances	3,388	3,347	3,172	2,296	7,467
Total Assets	48,390	52,112	58,530	60,683	64,763

Source: Company, YES Sec

Exhibit 9: Income statement (Standalone)

Y/e 31 Mar (Rs m)	FY22	FY23	FY24E	FY25E	FY26E
Net Revenue	50,408	60,711	64,303	66,364	69,444
EBITDA	8,013	7,043	8,254	9,554	11,508
D&A	1,905	1,935	2,105	2,105	2,204
EBIT	6,108	5,107	6,149	7,449	9,304
Interest Expense	963	915	1,206	1,250	929
Other Income	673	622	858	885	926
Exceptional/EO items	234	-	-	-	-
EBT	5,583	4,815	5,801	7,084	9,301
Tax	1,321	1,507	1,450	1,771	2,325
Share of Profit/(Loss) in JV/Associates	-	-	-	-	-
Reported PAT	4,262	3,308	4,351	5,313	6,976
Less: Minority Interest	-	-	-	-	-
Adj. PAT	4,496	3,308	4,351	5,313	6,976

Source: Company, YES Sec

Exhibit 10: Cash Flow (Standalone)

Y/e 31 Mar (Rs m)	FY22	FY23	FY24E	FY25E	FY26E
Cash flow from operation	3,727	3,075	5,269	7,345	9,079
Profit before tax	5,817	4,815	5,801	7,084	9,301
Depreciation	1,905	1,935	2,105	2,105	2,204
Tax paid	(1,321)	(1,507)	(1,450)	(1,771)	(2,325)
Working capital Δ	(2,440)	(2,168)	(1,187)	(73)	(101)
Other operating items	(234)	-	-	-	-
Cash flow from Investing Activities	(1,311)	(1,918)	(5,000)	(5,000)	(1,000)
Capital expenditure	(1,374)	(1,295)	(5,000)	(5,000)	(1,000)
Change in other non-current assets	63	(623)	-	-	-
Free cash flow	2,354	1,780	269	2,345	8,079
Cash flow from Financing activities	(2,619)	(1,198)	(444)	(3,221)	(2,908)
Change in Equity & Reserves	61	(152)	-	-	-
Investments	(66)	(242)	(3,502)	-	-
Debt financing/disposal	(1,618)	(1,517)	3,500	(2,780)	(2,467)
Dividends paid	(589)	(441)	(441)	(441)	(441)
Other items	(407)	1,154	-	-	-
Net Δ in cash	(203)	(41)	(175)	(876)	5,171

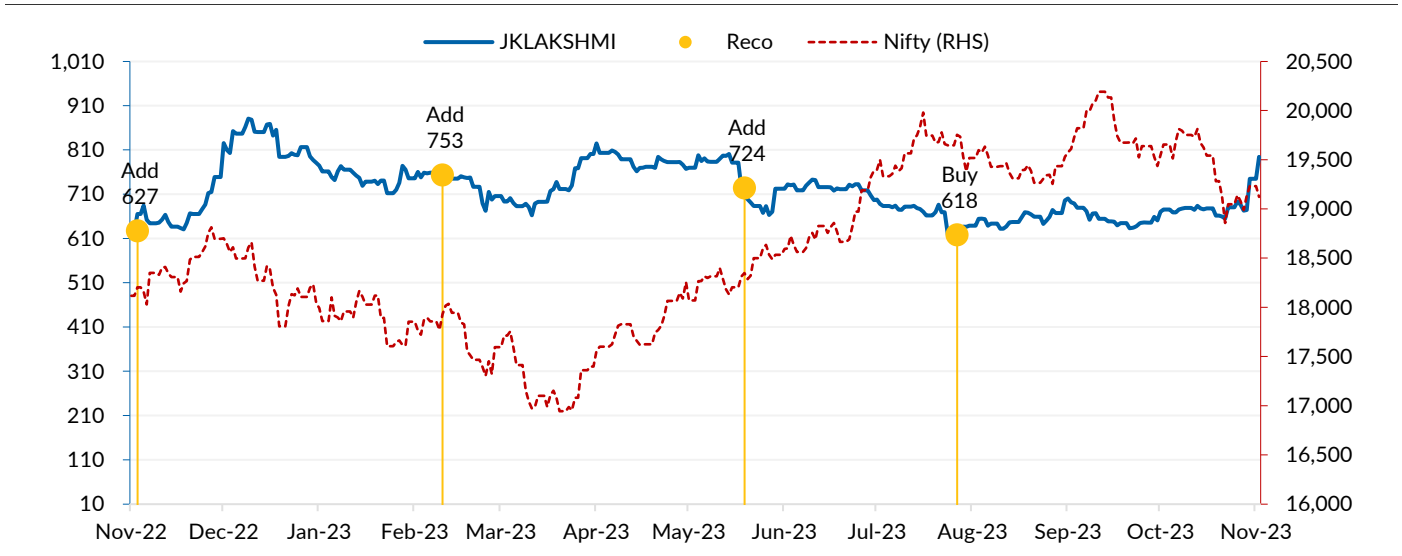
Source: Company, YES Sec

Exhibit 11: Ratio Analysis (Standalone)

Y/e 31 Mar	FY22	FY23	FY24E	FY25E	FY26E
Growth matrix (%)					
Revenue	15.0	20.4	5.9	3.2	4.6
EBITDA	1.5	(12.1)	17.2	15.8	20.5
EBT	12.4	(13.8)	20.5	22.1	31.3
PAT	17.2	(22.4)	31.5	22.1	31.3
EPS	17.2	(22.4)	31.5	22.1	31.3
Profitability ratios (%)					
EBITDA (%)	15.9	11.6	12.8	14.4	16.6
EBIT (%)	13.5	9.4	10.9	12.6	14.7
PAT (%)	8.5	5.4	6.8	8.0	10.0
ROCE	18.8	15.1	15.4	17.8	20.3
ROE	17.4	12.1	14.0	14.8	16.4
ROA	15.0	11.9	14.2	15.9	21.6
Per share ratios (Rs)					
EPS	36	28	37	45	59
DPS	5.0	3.8	3.8	3.8	3.8
Cash EPS	52	45	55	63	78
BVPS	208	231	265	306	362
Payout (%)					
Dividend payout	13.8	13.3	10.1	8.3	6.3
Tax payout	23.7	31.3	25.0	25.0	25.0
Liquidity ratios					
Inventory days	26	26	26	26	26
Payable days	40	36	36	36	36
Receivables days	3	3	3	3	3
Leverage ratios (x)					
Interest Coverage	7.0	6.3	5.8	6.7	11.0
Net D/E	0.1	0.0	0.0	(0.0)	(0.2)
Net Debt/EBITDA	0.1	(0.0)	0.4	0.2	(0.5)

Source: Company, YES Sec

Recommendation Tracker



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DISCLOSURE OF INTEREST

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The analyst hereby certifies that opinion expressed in this research report accurately reflect his or her personal opinion about the subject securities and no part of his or her compensation was, is or will be directly or indirectly related to the specific recommendation and opinion expressed in this research report.

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