

Better volumes and realisations leads to earnings beat

JK Lakshmi cement (JKLC) reported good set of numbers for 2QFY24 on account of higher than expected blended realization and lower costs. The company has commissioned its clinkerisation unit at Udaipur (part of subsidiary UCWL) in October 2023 and the grinding unit is expected to come up by 1QFY25. During the intervening period between commissioning of clinker and grinding capacity, the company will have to supply clinker to existing grinding units in Gujarat and Rajasthan to support cement production and it will also sell clinker in the market. We believe that profitability of the company will be impacted adversely due to 1) higher initial startup costs of clinker unit, 2) weak demand in NCR due to pollution related construction ban and 3) possibility of lower volumes and profitability in Gujarat market owing to ramp up of Sanghi plants by Adani group. As a result, we believe that earnings for next 2 quarter will be soft for JKLC. We were earlier valuing the standalone business of the company and then adding the value of subsidiary UCWL. We now value the company based on consolidated numbers and our revised TP now stands at Rs814 and we maintain our Add rating on the stock.

2QFY24 result summary

JK Lakshmi reported standalone revenue at Rs14.5bn which was 5.4% above our estimate of Rs13.7bn. Volumes came in at 2.53 mn mt, up 9.8% YoY and above 2.2% of our estimates. Realisations/mt at Rs5,737 were up 2.7%, sequentially. Operating costs/mt at Rs5,032 were flat YoY. Power and fuel costs/mt came in at Rs1,373 which were down 5% YoY. Absolute EBITDA at Rs1.7bn was up 28.8% YoY and 6.5% QoQ (19.6% above our estimate). As a result, EBITDA/mt came in at Rs705 as against our expectations of Rs602. PAT at Rs830 mn was up 40.8% YoY and 10.9% QoQ. On consolidated basis, the company reported revenue/EBITDA of Rs15.7bn/Rs2.1bn, up 15% and 33% YoY. Volumes at 2.9mn mt are up by 14% YoY and EBITDA/mt at came in Rs755/mt.

Earnings to be impacted by timing difference in commissioning of clinker and grinding units

JKLC has commissioned its clinker unit of 1.5mn mt at Udaipur in October 2023. The associated grinding unit is expected to be commissioned by March or April 2024. We believe that initial startup costs associated with new clinker unit till stabilization and better utilization will impact earnings negatively for the subsidiary UCWL. Additionally, upcoming ramp up of Sanghi plants by Adani group is likely to result in weak volume growth in Gujarat and possibly lower profitability. The company will have to resort to clinker sales initially which will result in higher costs and lower realization in the interim period. Combined effect of these is likely to result in soft earnings and EBITDA/mt in near term for the company.

Valuation and outlook

We were earlier valuing the company based on 8x FY25E EV/EBITDA on standalone basis and then adding the value of subsidiary UCWL based on market cap. We have now moved our valuations and estimates on consolidated basis. Given the better volume growth expected through UCW expansion, we have raised our target multiple to 8.5x from 8.0x earlier. While the company is working on improving various operating parameters like improving trade share, blended cement and geo-mix, we believe that current valuations are factoring in the growth adequately. We maintain our ADD rating on the stock with revised TP of Rs814 (Rs733 earlier) as we move to Sep25E valuation from Mar25E.

Financial and valuation summary

YE Mar (Rs mn)	2QFY24A	2QFY23A	YoY (%)	1QFY24A	QoQ (%)	FY24E	FY25E	FY26E
Revenues	15,745	13,736	14.6	17,303	(9.0)	71,783	78,684	84,515
EBITDA	2,173	1,639	32.5	1,962	10.7	10,262	11,928	12,984
EBITDA margin (%)	13.8	11.9	15.6	11.3	21.7	14.3	15.2	15.4
Adj. Net profit	959	618	55.2	798	20.2	4,627	5,469	6,222
Adj. EPS (Rs)	8.1	5.3	55.2	6.8	20.2	39.3	46.5	52.9
EPS growth (%)						25.3	18.2	13.8
PE (x)						20.2	17.1	15.0
EV/EBITDA (x)						10.3	8.9	7.9
PBV (x)						2.9	2.6	2.2
RoE (%)						15.3	15.9	15.9
RoCE (%)						12.2	12.8	13.3

Source: Company, Centrum Broking

Please see Disclaimer for analyst certifications and all other important disclosures.

Result Update

India I Cement

06 November, 2023

ADD

Price: Rs794

Target Price: Rs814

Forecast return: 3%

Institutional Research

Market Data

Bloomberg:	JKLC IN
52 week H/L:	897/606
Market cap:	Rs93.5bn
Shares Outstanding:	117.7mn
Free float:	51.8%
Avg. daily vol. 3mth:	3,48,477

Source: Bloomberg

Changes in the report

Rating:	Unchanged
Target price:	+11%; from Rs733 to Rs814
EBITDA:	NA

Source: Centrum Broking

Shareholding pattern

	Sep-23	Jun-23	Mar-23	Dec-22
Promoter	46.3	46.3	46.3	46.3
FII	10.5	11.5	11.7	13.8
DII	26.7	27.4	27.1	24.7
Public/other	16.5	14.8	14.9	15.2

Source: BSE

Centrum estimates vs Actual results

YE Mar (Rs mn)	Centrum Q2FY24	Actual Q2FY24	Variance (%)
Revenue	13,781	14,526	5.4
EBITDA	1,492	1,785	19.6
EBITDA margin %	10.8	12.3	146 bps
Adj. PAT	638	830	30.1
EPS (Rs)	5.4	7.1	30.1

Source: Bloomberg, Centrum Broking



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Cement

Thesis Snapshot

JK Lakshmi Cement versus NIFTY Midcap100

	1m	6m	1 year
JKLC IN	17.6	3.2	26.8
NIFTY Midcap100	(0.9)	24.2	26.0

Source: Bloomberg, NSE

Key assumptions

Y/E Mar (Rs mn)	FY24E	FY25E
Capacity (mn mt)	14.0	16.5
Volumes (mn mt)	13.2	14.4
Realizations (Rs/mt)	5,419	5,450
Operating expense (Rs/mt)	4,644	4,623
EBITDA/mt (Rs)	775	826
Capex (Rs mn)	-11,947	-6,000
Net Debt (Rs mn)	14,033	13,409

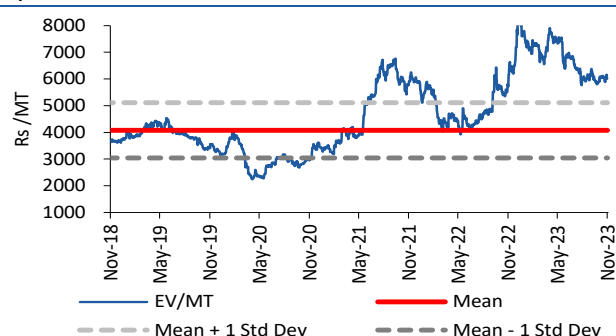
Source: Centrum Broking

Valuations

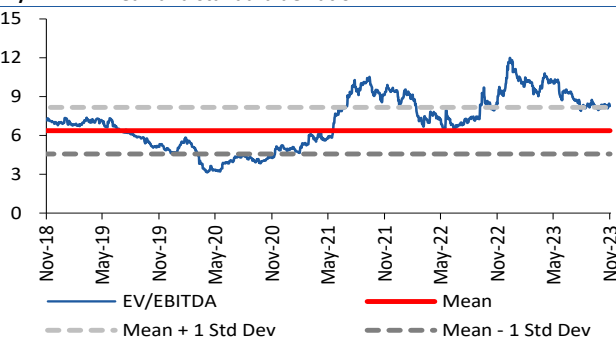
We were earlier valuing the company based on 8x FY25E EV/EBITDA on standalone basis and then adding the value of subsidiary UCWL based on market cap. We have now moved our valuations and estimates on consolidated basis. We maintain our ADD rating on the stock with revised TP of Rs814 (Rs733 earlier) as we move to Sep25E valuation from Mar25E. We value the business at 8.5x Sep25E EV/EBITDA.

Particulars	(Rs mn)
Sep25E EBITDA	12,456
Target multiple (x)	8.5
Enterprise value	1,05,879
Less: Net debt	10,046
Equity value	95,833
No of shares (mn)	117.7
Target price (Rs)	814

EV/MT mean and standard deviation



EV/EBITDA mean and standard deviation



Source: Bloomberg, Centrum Broking

Peer comparison

Company	Mkt Cap	CAGR (FY23-25E)			EV/EBITDA (x)			EV/mt (US\$)			FY25E	
	(Rs bn)	Sales	EBITDA	EPS	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	RoE (%)	ROCE (%)
ACC	351	-1.3%	32.9%	52.7%	16.7	10.7	8.8	107.0	95.7	91.7	12%	16%
Ambuja Cement	1,002	0.3%	8.5%	-0.9%	28.6	23.7	21.6	356.8	260.1	194.8	5%	7%
Birla Corporation	97	10.5%	51.9%	328.1%	17.3	8.9	7.0	79.9	79.3	74.1	11%	10%
Heidelberg Cement	42	5.5%	17.5%	28.1%	11.3	8.5	7.6	74.9	71.8	69.4	18%	20%
JK Cement	239	12.0%	25.0%	38.4%	20.1	14.2	12.6	137.3	136.2	116.9	18%	13%
JK Lakshmi Cement	93	11.1%	18.8%	21.0%	12.3	9.9	9.0	89.2	92.3	78.0	16%	14%
Nuvoco Vistas	120	7.2%	30.5%	469.3%	13.9	8.9	7.2	85.1	76.7	71.2	6%	9%
Sagar Cements	32	23.8%	76.7%	384.3%	28.9	13.1	10.1	65.1	60.2	52.0	11%	9%
Shree Cements	917	11.0%	29.2%	29.3%	30.5	20.7	18.0	234.6	203.6	159.0	11%	18%
Star Cements	62	21.8%	30.0%	15.3%	13.3	12.2	8.9	133.6	112.1	88.4	13%	13%
The Ramco Cements	232	11.2%	31.2%	47.2%	23.4	14.9	13.0	164.3	155.8	150.8	11%	11%
Ultratech Cements	2,419	12.6%	22.1%	33.8%	23.0	16.4	15.1	223.5	221.1	187.6	14%	15%

Source: Company, Centrum Broking

Exhibit 1: 2QFY24 result summary (consolidated)

Y/E March (Rsmm)	2QFY23	1QFY24	2QFY24	YoY (%)	QoQ (%)	1HFY23	1HFY24	YoY (%)
Net Sales	13,736	17,303	15,745	14.6	(9.0)	30,277	33,048	9.2
Expenditure								
Chg. in stock	(546)	284	(177)	NA	NA	(546)	107	NA
RM consumption	2,063	2,481	2,275	10.2	(8.3)	4,426	4,756	7.5
Purchase of traded goods	1,206	1,440	1,330	10.3	(7.7)	1,904	2,770	45.5
Employee costs	933	1,084	1,043	11.9	(3.8)	1,952	2,128	9.0
Freight costs	2,576	3,433	2,990	16.1	(12.9)	5,856	6,423	9.7
Power and fuel	4,189	4,577	4,300	2.7	(6.1)	8,729	8,877	1.7
Other exp	1,676	2,040	1,812	8.1	(11.2)	3,749	3,853	2.8
Total Operating Expenses	12,096	15,340	13,573	12.2	(11.5)	26,069	28,913	10.9
EBITDA	1,639	1,962	2,173	32.5	10.7	4,208	4,135	(1.7)
EBITDA Margin (%)	11.9%	11.3%	13.8%	186bps	246bps	13.9%	12.5%	(139)bps
Other Income	196	111	140	(28.7)	25.6	265	251	(5.3)
Interest Costs	334	331	336	0.6	1.5	693	667	(3.7)
Depreciation	568	557	567	(0.3)	1.7	1,128	1,124	(0.3)
PBT	933	1,185	1,410	51.1	18.9	2,653	2,595	(2.2)
Exceptional Items	-	-	-	NA	NA	-	-	NA
Tax	315	388	451	43.0	16.4	884	839	(5.1)
Reported PAT	618	798	959	55.2	20.2	1,769	1,757	(0.7)
Adjusted PAT	618	798	959	55.2	20.2	1,769	1,757	(0.7)
NPM(%)	4.5%	4.6%	6.1%	159bps	148bps	5.8%	5.3%	(53)bps
EPS (Rs.)	5.3	6.8	8.1	55.2	20.2	15.0	14.9	(0.7)

Source: Centrum Broking, Company Data

Exhibit 2: 2QFY24 operational data (consolidated)

Operational Data	2QFY23	1QFY24	2QFY24	YoY (%)	QoQ (%)	1HFY23	1HFY24	YoY (%)
Volume (mn mt)	2.5	3.2	2.9	13.8	(10.2)	5.6	6.1	9.4
Cement Realisation (Rs/mt)	5,431	5,399	5,471	0.7	1.3	5,445	5,433	(0.2)
Operating Costs (Rs/mt)	4,783	4,786	4,716	(1.4)	(1.5)	4,688	4,753	1.4
EBITDA (Rs/mt)	648	612	755	16.5	23.3	757	680	(10.2)

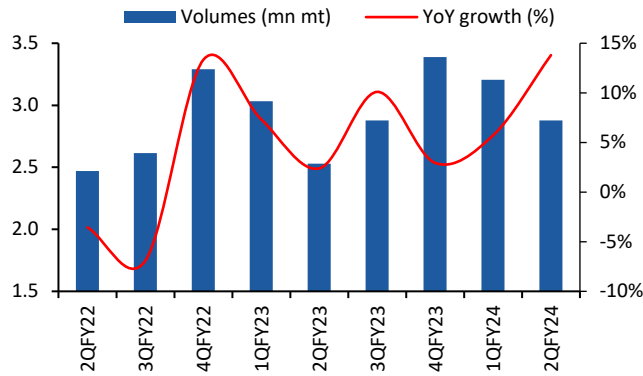
Source: Centrum Broking, Company Data

Exhibit 3: Trends in operating cost per tonne (consolidated)

Costs/mt (Rs)	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	YoY (%)	QoQ (%)
Chg. in stock	-55	-166	130	-0	-216	-269	269	89	-61	(71.5)	(169.3)
RM consumption	1,046	1,086	903	1,010	1,292	1,167	1,111	1,223	1,252	(3.1)	2.4
Employee cost	379	366	246	336	369	335	284	338	363	(1.7)	7.2
Freight, packing etc	967	994	1,025	1,082	1,019	1,059	1,086	1,071	1,039	2.0	(3.0)
Power and fuel	1,131	1,331	1,118	1,498	1,656	1,800	1,484	1,428	1,494	(9.8)	4.6
Other exp	641	644	451	684	663	691	576	637	630	(5.0)	(1.1)
Operating costs/mt	4,108	4,254	3,875	4,608	4,783	4,783	4,809	4,786	4,716	(1.4)	(1.5)
EBITDA/mt	786	664	987	847	648	644	687	612	755	16.5	23.3

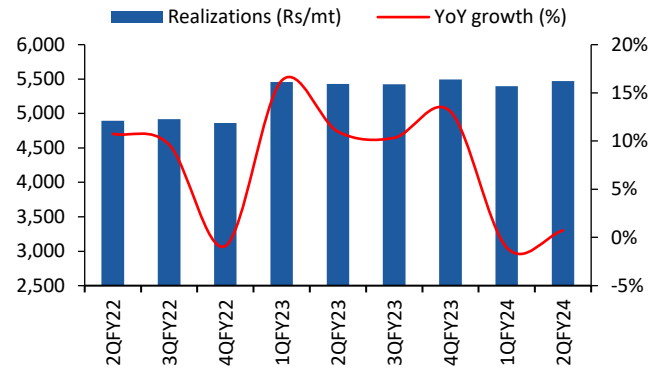
Source: Centrum Broking, Company Data

Exhibit 4: Volumes up 13.8% YoY



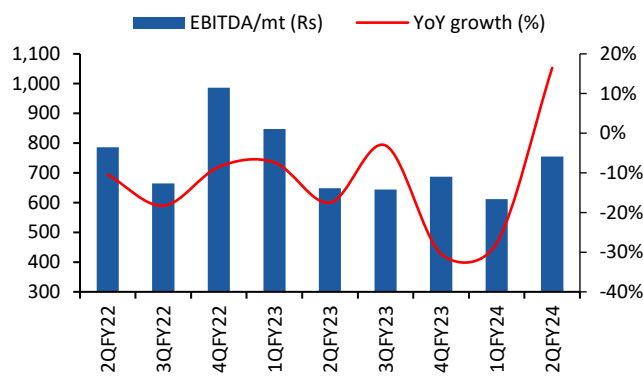
Source: Centrum Broking, Company Data

Exhibit 5: Realizations up 1.3% on a sequential basis



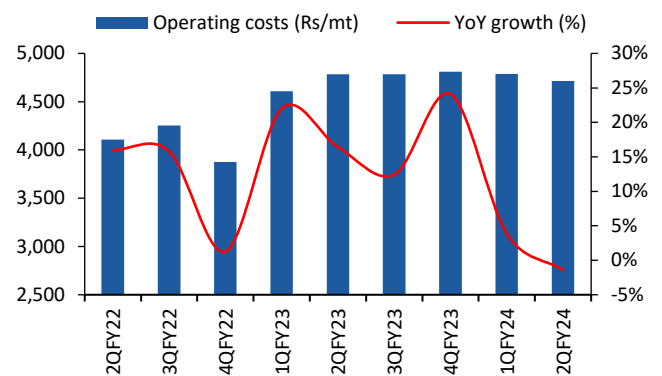
Source: Centrum Broking, Company Data

Exhibit 6: EBITDA/mt up 16.5% YoY to Rs755



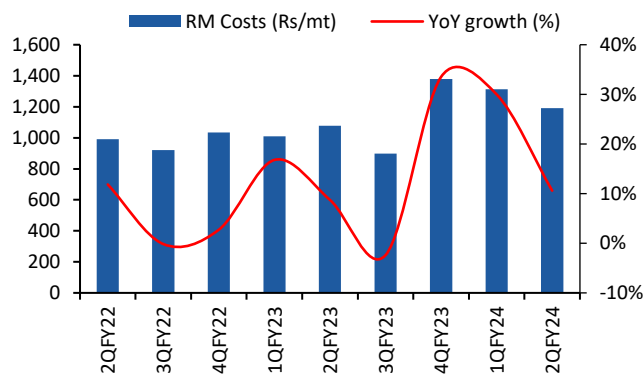
Source: Centrum Broking, Company Data

Exhibit 7: Operating cost down by -1.4% YoY



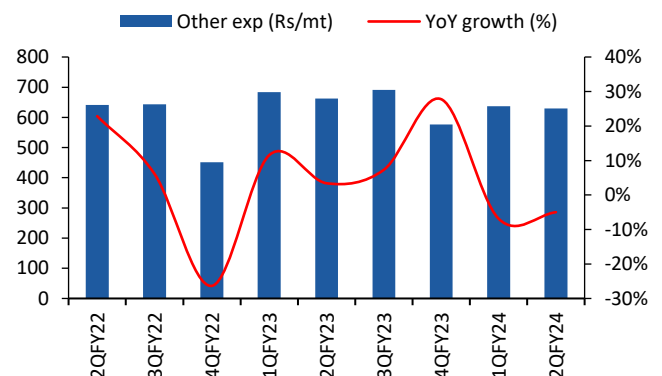
Source: Centrum Broking, Company Data

Exhibit 8: RM costs up 10.6% YoY



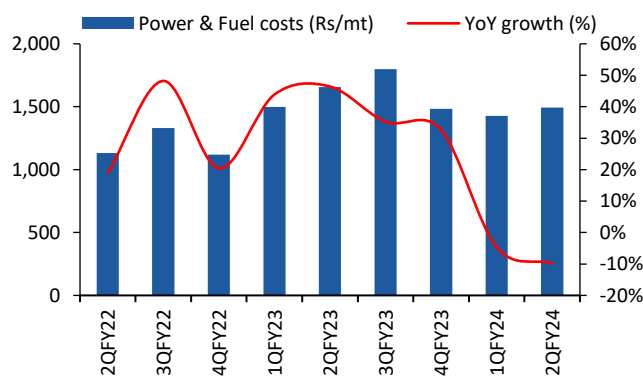
Source: Centrum Broking, Company Data

Exhibit 9: Other expenses down by 5% YoY



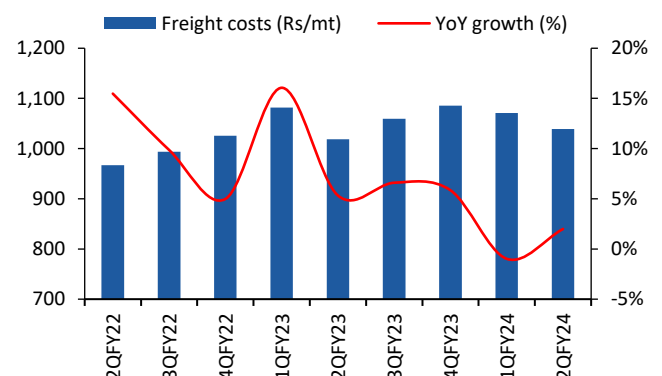
Source: Centrum Broking, Company Data

Exhibit 10: Power & fuel down 9.8% YoY



Source: Centrum Broking, Company Data

Exhibit 11: Freight costs slight up on a YoY basis



Source: Centrum Broking, Company Data

Conference call takeaways

- **Volume and Demand**- Company has lowered its volume guidance to 12-15% for FY24. UCWL: clinker production- 0.38mn mt, sales- 0.46mn mt, consol volumes- 0.55mn mt. Company expects eastern region to grow at 8-10%.
- **Costs**- Average fuel costs for the quarter stood at 2.04/kcal vs 2.23/kcal last quarter. Company expects it to decline further to 1.9/kcal for 3QFY24. Fuel mix for the quarter consisted of 46% petcoke, 38% coal and the rest was biomass and alternative fuels. Company is carrying inventory of 3 months.
- **Capex**- 1) Board has approved capacity addition of 1.3mn mt at its existing split grinding unit in Surat at a cost of Rs2.25bn. It would increase the plant's capacity to 2.7mn mt from its current capacity of 1.35mn mt. Management highlighted that the expansion at Surat would allow the company to push volumes in the Mumbai market. 2) Conveyor and railway sliding at durg would be commissioned in a year. 3) Capex for FY24 and FY25 is pegged at Rs 12bn (JKLC-Rs5bn, UCWL- Rs7bn) and Rs6bn (JKLC- Rs5bn, UCWL- Rs1bn), respectively.
- **Udaipur unit**- 2.5mn mt grinding unit is expected to be commissioned by March 2024. Till the time grinding unit is commissioned at UCWL, company would prioritize utilizing the clinker at its existing plants and outsourced grinding units before selling it in the market.
- **Other**
 - Company expects price hike benefits to the tune of Rs50-100/mt to flow in 3QFY24.
 - Trade share- 62% vs 58% last quarter, blended ratio-65%, Lead distance- 387kms, premium mix- 33%.
 - Consolidated gross debt- Rs19.7bn, net debt- Rs11.7bn. Consol net debt expected to increase to Rs16bn in FY24 and Rs18bn in FY25.
 - The Share of Renewable Power at Durg Cement plant has increased from 36% to 80% from October 2023. Consolidated green share for the company stands at 35% as of Sep 2023.
 - Non cement revenue for the quarter was Rs1.3bn, out of which RMC was Rs0.6bn and AAC was Rs0.5bn.
 - AFR share- Durg- 6%, Sirohi- 6%. Company intends to increase its AFR share from 4% to 12% in the near term.

Exhibit 12: Valuation Summary

Particulars	(Rs mn)
Sep25E EBITDA	12,456
Target multiple (x)	8.5
Enterprise value	1,05,879
Less: Net debt	10,046
Equity value	95,833
No of shares (mn)	117.7
Target price (Rs)	814

Source: Centrum Broking, Company Data

P&L					
YE Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenues	54,199	64,515	71,783	78,684	84,515
Operating Expense	34,581	44,560	48,803	53,286	57,527
Employee cost	3,628	3,877	4,105	4,269	4,446
Others	6,482	7,690	8,613	9,201	9,558
EBITDA	9,507	8,387	10,262	11,928	12,984
Depreciation & Amortisation	2,235	2,283	2,874	3,502	3,823
EBIT	7,272	6,104	7,388	8,427	9,162
Interest expenses	1,422	1,334	1,465	1,367	1,093
Other income	683	575	521	557	597
PBT	6,534	5,345	6,444	7,616	8,665
Taxes	1,488	1,654	1,817	2,147	2,443
Effective tax rate (%)	22.8	30.9	28.2	28.2	28.2
PAT	5,046	3,691	4,627	5,469	6,222
Minority/Associates	0	0	0	0	0
Recurring PAT	5,046	3,691	4,627	5,469	6,222
Extraordinary items	(270)	0	0	0	0
Reported PAT	4,776	3,691	4,627	5,469	6,222

Ratios					
YE Mar	FY22A	FY23A	FY24E	FY25E	FY26E
Growth (%)					
Revenue	14.6	19.0	11.3	9.6	7.4
EBITDA	1.3	(11.8)	22.4	16.2	8.9
Adj. EPS	9.9	(26.8)	25.3	18.2	13.8
Margins (%)					
Gross	80.3	79.8	78.4	78.1	78.0
EBITDA	17.5	13.0	14.3	15.2	15.4
EBIT	13.4	9.5	10.3	10.7	10.8
Adjusted PAT	8.8	5.7	6.4	7.0	7.4
Returns (%)					
ROE	21.8	13.7	15.3	15.9	15.9
ROCE	17.1	11.3	12.2	12.8	13.3
ROIC	18.7	10.4	10.6	11.0	11.6
Turnover (days)					
Gross block turnover ratio (x)	1.1	1.3	1.1	1.0	1.1
Debtors	3	3	4	5	6
Inventory	162	199	206	198	196
Creditors	134	133	151	153	152
Net working capital	16	16	3	2	13
Solvency (x)					
Net debt-equity	0.0	0.2	0.4	0.3	0.2
Interest coverage ratio	6.7	6.3	7.0	8.7	11.9
Net debt/EBITDA	0.1	0.8	1.2	1.0	0.7
Per share (Rs)					
Adjusted EPS	42.9	31.4	39.3	46.5	52.9
BVPS	215.2	241.4	273.4	311.0	355.1
CEPS	61.9	50.8	63.7	76.2	85.4
DPS	3.8	5.0	7.4	8.8	8.8
Dividend payout (%)	9.3	15.9	18.7	19.0	16.7
Valuation (x)					
P/E	18.5	25.3	20.2	17.1	15.0
P/BV	3.7	3.3	2.9	2.6	2.2
EV/EBITDA	9.9	12.0	10.3	8.9	7.9
Dividend yield (%)	0.5	0.6	0.9	1.1	1.1

Source: Company, Centrum Broking

Balance sheet					
YE Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Equity share capital	589	589	589	589	589
Reserves & surplus	24,730	27,820	31,582	36,013	41,196
Shareholders fund	25,319	28,409	32,170	36,601	41,785
Minority Interest	0	0	0	0	0
Total debt	12,704	15,332	16,832	14,832	11,832
Non Current Liabilities	3,650	3,978	4,609	4,693	4,767
Def tax liab. (net)	531	1,327	1,327	1,327	1,327
Total liabilities	42,203	49,046	54,939	57,453	59,711
Gross block	48,192	50,136	66,404	75,404	79,404
Less: acc. Depreciation	(13,992)	(16,021)	(18,815)	(22,316)	(26,139)
Net block	34,201	34,115	47,590	53,088	53,266
Capital WIP	2,512	8,902	4,500	1,500	1,000
Net fixed assets	36,712	43,017	52,090	54,588	54,266
Non Current Assets	1,761	1,833	875	885	893
Investments	1,308	1,306	1,406	1,506	1,606
Inventories	5,810	8,416	9,063	9,597	10,413
Sundry debtors	352	654	831	1,121	1,445
Cash & Cash Equivalents	12,099	8,504	4,930	2,554	2,780
Loans & advances	1,038	1,387	1,828	2,000	2,146
Other current assets	182	290	290	290	290
Trade payables	3,660	5,860	6,911	7,499	8,035
Other current liab.	13,232	10,444	9,400	7,520	6,016
Provisions	167	59	64	71	78
Net current assets	2,423	2,889	568	474	2,946
Total assets	42,203	49,046	54,939	57,453	59,711

Cashflow					
YE Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Profit Before Tax	6,264	5,345	6,444	7,616	8,665
Depreciation & Amortisation	2,235	2,283	2,874	3,502	3,823
Net Interest	1,422	1,334	1,465	1,367	1,093
Net Change – WC	1,468	(4,061)	(1,253)	(2,282)	(2,246)
Direct taxes	(1,488)	(1,654)	(1,817)	(2,147)	(2,443)
Net cash from operations	9,901	3,248	7,714	8,056	8,892
Capital expenditure	(1,939)	(8,588)	(11,947)	(6,000)	(3,500)
Acquisitions, net	0	0	0	0	0
Investments	(2,913)	1,257	1,900	1,400	400
Others	(878)	(73)	958	(10)	(8)
Net cash from investing	(5,730)	(7,404)	(9,088)	(4,610)	(3,108)
FCF	4,171	(4,157)	(1,374)	3,446	5,783
Issue of share capital	0	0	0	0	0
Increase/(decrease) in debt	5	2,628	1,500	(2,000)	(3,000)
Dividend paid	(443)	(587)	(865)	(1,038)	(1,038)
Interest paid	(1,422)	(1,334)	(1,465)	(1,367)	(1,093)
Others	(300)	1,110	631	84	74
Net cash from financing	(2,160)	1,817	(199)	(4,322)	(5,058)
Net change in Cash	2,011	(2,340)	(1,574)	(876)	726

Source: Company, Centrum Broking

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JK Lakshmi Cement



Source: Bloomberg

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