AXIS SECURITIES

Result Update
11th November 2024

JK Lakshmi Cement Limited
Cement

BUY
Target Price
900

Passing Through The Challenging Time; Retain BUY

Est. Vs. Actual for Q2FY25: Revenue – MISS; EBITDA Margin – MISS ; PAT – MISS
Change in Estimates post Q2FY25 (Abs)
FY25E/FY26E: Revenue: -3%/2%; **EBITDA:** -23%/-6%; **PAT: -**27%/-5%

Recommendation Rationale

- **Capacity expansion to support volume growth:** The establishment of a 1.35 mtpa grinding unit in Surat, with a capital expenditure of Rs 220 Cr funded through a mix of internal accruals and debt, is progressing well and is expected to be operational by Q4FY25. Additionally, the company plans a capacity expansion of 4.6 mtpa for cement grinding and 2.3 mtpa for clinker at a total capital cost of Rs 2,500 Cr (USD 65/tonne), to be commissioned in phases over FY26-27. These expansions are anticipated to boost market share and drive revenue growth. We project a volume growth CAGR of 7% over FY24-26E.
- **Levers in place to improve EBITDA/tonne:** The company plans to focus on key initiatives to enhance performance, including optimising its geo-mix, increasing the production and sales of blended cement, raising the proportion of trade sales, and boosting premium and value-added products. Additionally, it aims to improve logistics efficiency and increase renewable power and AFR use. The company expects cost savings of Rs 75-100 per tonne. We project EBITDA/tonne growth at a 12% CAGR over FY23-26E, reaching Rs 1,030/tonne, supported by stable realizations, higher volumes, and cost-saving measures.
- **Robust cement demand in the country:** Cement demand in the country is expected to stay robust, driven by increased capital spending by the central government on infrastructure projects, including roads, railways, and housing, alongside strong real estate demand. Continued investment in infrastructure development is anticipated to further stimulate cement demand. The industry is projected to grow at a CAGR of 7-8% over FY23-FY26E.

Sector Outlook: Positive

Company Outlook & Guidance: Given the government's focus on infrastructure development and the increased budgetary allocation for housing and road projects, the outlook for the cement sector appears positive for the upcoming year. Management has guided for a 6-7% volume growth on a consolidated basis. Current prices are stronger than in Q2FY25, and higher demand is expected to positively impact pricing.

Current Valuation: 9.5xFY26E EV/EBITDA (Earlier Valuation: 9.5x FY26 EV/EBITDA)
Current TP: Rs 900/share (Earlier TP: Rs 950/share)
Recommendation: We **maintain** our **BUY** recommendation on the stock.

Alternative BUY Ideas from our Sector Coverage
UltraTech Cement Ltd (TP – 12,000/share), JK Cement (TP-4,800share), Dalmia Bharat (TP-2040/share), Ambuja Cements Ltd (675/share), Birla Corporation(TP-1390/share), JK Lakshmi (900/share).

Financial Performance

JKLC reported a weak set of results for the period. Volume, revenue, EBITDA, and PAT declined by 14%, 21%, 66%, and 105% respectively, driven by lower realizations and negative operating leverage, falling below expectations. EBITDA margins fell to 5.4%, down from 12.3% YoY and below our estimate of 11.8%. The company posted a profit of Rs 7.5 Cr, representing a decline of 91% YoY and 95% QoQ.

In the quarter, JKLC's volume stood at 1.87 mntpa, reflecting a 14% YoY decline. The company's EBITDA per tonne was Rs 329, down 60% YoY. Blended realization per tonne was Rs 6,117, down 1.5% QoQ and 9% YoY. Additionally, the cost per tonne decreased by 1% YoY to Rs 5,788 but increased by 7% QoQ.

Key Financials (Standalone)

(Rs Cr)	Q2FY25	QoQ (%)	YoY (%)	Axis Est.	Variance
Net Sales	1,141	-21	-21	1,269	-10%
EBITDA	61	-67	-66	150	-59%
EBITDA Margin	5.4%	(740bps)	(690bps)	11.8%	(640bps)
Net Profit	8	-95	-91	61	-88%
EPS (Rs)	0.6	-95	-91	5.2	-88%

Source: Company, Axis Securities Research

(CMP as of 8th November 2024)

CMP (Rs)	766
Upside /Downside (%)	17
High/Low (Rs)	1000/709
Market cap (Cr)	9010
Avg. daily vol. (6m)Shrs.	2,50,000
No. of shares (Cr)	11.8

Shareholding (%)

	Mar-24	Jun-24	Sep-24
Promoter	46.3	46.3	46.3
FIIs	11.5	11.3	11.5
MFs / UTI	23.0	20.2	19.6
Banks / FIs	0.0	0.0	0.0
Others	19.2	22.1	22.5

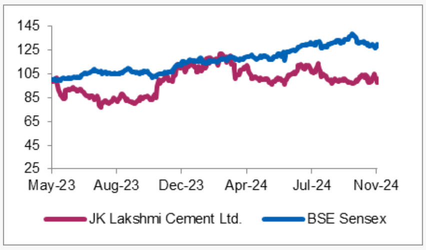
Financial & Valuations

Y/E Mar (Rs Cr)	FY24	FY25E	FY26E
Net Sales	6,320	6,111	7,102
EBITDA	864	751	1,136
Net Profit	411	392	577
EPS (Rs)	35	33	49
PER (x)	22	23	16
P/BV (x)	3.0	2.7	2.3
EV/EBITDA (x)	11	13	8
ROE (%)	14	12	16

Change in Estimates (%)

Y/E Mar	FY25E	FY26E
Sales	-3%	2%
EBITDA	-23%	-6%
PAT	-27%	-5%

Relative Performance



Source: Ace Equity

Uttam K Srimal
Sr Research Analyst
email:Uttamkumar.srimal@axissecurities.in

Shikha Doshi
Research Analyst
email: shikha.doshi@axissecurities.in

Outlook

- H1FY25 was subdued due to factors such as elections, higher monsoons, labour shortages, and soft prices, impacting overall operating performance. H2FY25 is expected to show improvement with higher demand and better pricing. Given JKLC's strong presence in North, West, and East India, along with strategic initiatives like increasing sales of premium and value-added products, higher blending ratios, enhanced trade sales, greater use of green energy, and direct dispatches, the company is well-positioned to strengthen its topline and margins. We project a CAGR of 7% in volume, 6% in revenue, 15% in EBITDA, and 18% in PAT over FY23-FY26E. Monitoring cement pricing will remain crucial.

Valuation & Recommendation

- The stock is currently trading at 13x/8x EV/EBITDA of FY25E/FY26E. **We maintain our BUY rating on the stock with a TP of Rs 900/share, implying an upside potential of 17% from the CMP.**

Key Concall Highlights

- **Capacity Expansion**: The company is advancing a 1.35 mtpa grinding unit in Surat with a Capex of Rs 220 Cr, funded via internal accruals and debt, expected to commence in phases over FY25-FY26. Additionally, land acquisition is underway in North-East India for a new 2 mtpa plant, with necessary permissions to follow.

- **Expansion Details**: Key projects include a new 2.3 mtpa clinker line at the Durg Cement Plant, Chhattisgarh, and 4.6 mtpa across four new grinding units at the same site. Plans for three split-location grinding units with 3.6 mtpa combined capacity in Prayagraj, Madhubani, and Patratu are underway, with a total Capex of Rs 2,500 Cr, funded by Rs 1,750 Cr in term loans and internal accruals. A Rs 325 Cr railway siding at Durg, funded by Rs 225 Cr debt and internal accruals, is also in progress. Phase I is expected by Mar'26 and Phase II by Mar'27.

- **Volume & Sales Mix**: The quarter saw a 14% decline in volume, with blended cement accounting for 64% and OPC 36% of sales. Trade sales were 54% versus 46% non-trade, a change from 56%-44%. Premium cement comprised 25% of trade sales. The company aims to increase blended cement sales to 70%-75%, surpassing industry growth rates. Limestone reserves across mines are sufficient for 30-50 years of clinker production. North and West India saw weaker performance due to lower realizations and subdued demand, while the East fared better.

- **Value-Added Products (VAP) & RMC**: VAP sales were Rs 126 Cr with an EBITDA margin of 4-5%, remaining flat YoY. Revenue from RMC stood at Rs 66 Cr. The target is to increase VAP revenue to Rs 1,000 Cr over three years.

- **Pricing Outlook**: Cement prices have improved since Q2FY25, with expectations of potential price increases based on market trends.

- **Power & Fuel Costs**: The cost per Kcal was Rs 1.62, stable from Rs 1.63 in Q1FY25. The company is enhancing Total Suspended Solids Recovery (TSR) from 4% to 16% at the Sirohi plant and has operationalized a 3.5 MW WHRS at Sirohi. Additionally, a 40 MW solar power source at the Durg plant increased its renewable power share from 36% to 80% from Oct'23.

- **Freight Costs**: Lead distance decreased by 12 km YoY to 371 km. Freight cost per tonne fell 4% YoY and rose 3% QoQ to Rs 1,265/tonne, supported by better route management. Road transport accounted for 90% of volume, with rail at 10%.

- **Capex Plans**: The company has outlined Capex of Rs 500 Cr for FY25 and Rs 800 Cr for FY26, covering WHRS at Sirohi, an AAC block at Alwar, rail siding and conveyor belt at Durg, and expansion/maintenance. H1FY25 Capex stood at Rs 272 Cr.

- **Debt Position**: Gross debt is Rs 695 Cr, with Rs 375 Cr in cash equivalents, resulting in a net debt of Rs 325 Cr on a standalone basis. The company plans to raise Rs 1,700-1,800 Cr debt to finance FY25-FY26 Capex.

- **Operational Costs**: Other expenses rose 19% QoQ/YoY to Rs 867/tonne due to negative operating leverage.

- **Consolidation Strategy**: The company will consolidate Udaipur Cement Works Ltd (UCWL) and other group entities for operational synergies, effective April 1, 2024.

Key Risks to Our Estimates and TP

- Lower realization and demand in its key market and delay in capacity expansion.
- Higher input costs may impact margins.

Change in Estimates

	New		Old		% Change	
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Sales	6,111	7,102	6312	6994	-3%	2%
EBITDA	751	1,136	978	1211	-23%	-6%
PAT	392	577	541	605	-27%	-5%

Source: Company, Axis Securities Research

Result Review Q2FY25

(Rs Cr)	Quarterly Performance				
	Q2FY25	Q1FY25	Q2FY24	% Chg qoq	% Chg yoy
Net sales	1141	1445	1,453	-21%	-21%
Expenditure	1080	1260	1,274	-14%	-15%
EBITDA	61	185	179	-67%	-66%
Other income	12	92	15	-87%	-21%
Interest	18	19	23	-7%	-22%
Depreciation	50	47	48	6%	5%
PBT	6	211	123	-97%	-95%
Tax	-2	55	40	NA	NA
Adjusted PAT	7.5	156	83	-95%	-91%
EBITDA margin (%)	5.4%	12.8%	12.3%	(740bps)	(690bps)
EPS (Rs)	0.6	13.3	7.1	-95%	-91%

Source: Company, Axis Securities Research

Volume/Realization/Cost Analyses

	Quarterly Performance				
	Q2FY25	Q1FY25	Q2FY24	% Chg qoq	% Chg yoy
Volume/mtpa	1.87	2.33	2.17	-20%	-14%
Realisation/tonne (Rs)	6117	6210	6,691	-2%	-9%
Cost/tonne (Rs)	5788	5417	5869	7%	-1%
Raw material/tonne (Rs)	1822	1945	1,795	-6%	2%
Staff Cost/tonne (Rs)	514	376	432	37%	19%
Power & Fuel/tonne (Rs)	1320	1143	1,601	15%	-18%
Freight/tonne (Rs)	1265	1224	1,312	3%	-4%
Other Expenses /tonne (Rs)	867	729	730	19%	19%
EBITDA/tonne (Rs)	**329**	**793**	**822**	**-59%**	**-60%**

Source: Company, Axis Securities Research

Financials (Standalone)

Profit & Loss

(Rs Cr)

Y/E March	FY24	FY25E	FY26E
Net sales	**6320**	**6111**	**7102**
Other operating income	0	0	0
Total income	**6320**	**6111**	**7102**
Raw Material	1767	1797	1995
Power & Fuel	1366	1240	1376
Freight & Forwarding	1249	1218	1364
Employee benefit expenses	374	373	395
Other Expenses	700	733	836
EBITDA	**864**	**751**	**1136**
Other income	64	134	60
PBIDT	**928**	**885**	**1196**
Depreciation	195	197	229
Interest & Fin Chg.	87	102	105
E/o income / (Expense)	0	0	0
Pre-tax profit	**646**	**586**	**862**
Tax provision	234	193	284
Minority Interests			
Associates	0	0	0
RPAT	**411**	**392**	**577**
Other Comprehensive Income	0	0	0
APAT after Comprehensive Income	**411**	**392**	**577**

Source: Company, Axis Securities Research

Balance Sheet

(Rs Cr)

Y/E March	FY24	FY25E	FY26E
Total assets	5908	6400	7084
Net Block	3005	3359	3910
CWIP	374	374	374
Investments	1181	1181	1181
Wkg. cap. (excl cash)	335	284	318
Cash / Bank balance	229	250	247
Misc. Assets	78	95	105
Capital employed	**5908**	**6400**	**7084**
Equity capital	59	59	59
Reserves	3023	3371	3904
Minority Interests	0	0	0
Borrowings	892	1042	1142
DefTax Liabilities	0	0	0
Other Liabilities and Provision	1935	1928	1979

Source: Company, Axis Securities Research

Cash Flow (Rs Cr)

Y/E March	FY24	FY25E	FY26E
Profit before tax	646	586	862
Depreciation	195	197	229
Interest Expenses	87	102	105
Non-operating/ EO item	-60	-134	-60
Change in W/C	65	51	-34
Income Tax	-112	-193	-284
Operating Cash Flow	821	608	817
Capital Expenditure	-402	-550	-781
Investments	206	-175	-50
Others	35	134	60
Investing Cash Flow	-161	-591	-771
Borrowings	-127	150	100
Interest Expenses	-84	-102	-105
Dividend paid	-67	-44	-44
Financing Cash Flow	-279	4	-49
Change in Cash	382	21	-3
Opening Cash	139	89	109
Closing Cash	89	109	107

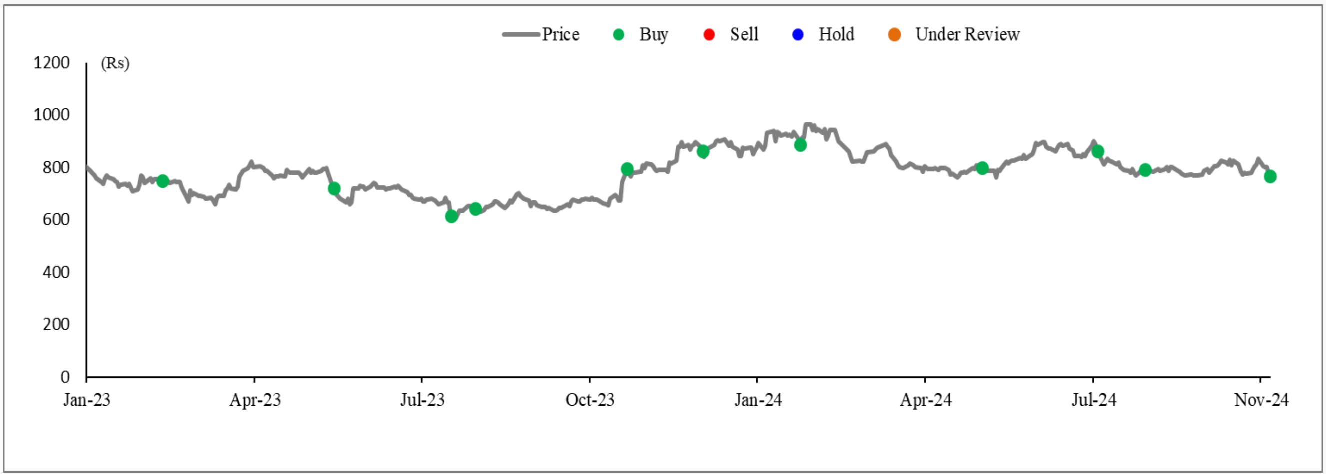
Source: Company, Axis Securities Research

Ratio Analysis (%)

Y/E March	FY24	FY25E	FY26E
Operational Ratios			
Gross profit margin	30.7%	30.4%	33.3%
EBITDA margin	13.7%	12.3%	16.0%
PAT margin	6.5%	6.4%	8.1%
Depreciation / G. block	5%	4%	4%
Growth Indicator			
Sales growth	4%	-3%	16%
Volume growth	1%	2%	12%
EBITDA growth	23%	-13%	51%
PAT growth	24%	-5%	47%
Efficiency Ratios			
Sales/Gross block (x)	1.5	1.3	1.3
Sales/Net block(x)	2.1	1.8	1.8
Working capital/Sales (%)	0.15	0.17	0.16
Valuation Ratios			
PE (x)	**22**	**23**	**16**
P/BV (x)	2.96	2.66	2.30
EV/Ebitda (x)	**11.0**	**12.6**	**8.4**
EV/Sales (x)	1.5	1.5	1.3
MCap/ Sales (x)	1.4	1.5	1.3
EV/Tonne $	88	96	67
Return Ratios	14	12	16
ROE	18	15	19
ROCE	21	18	23
ROIC			
Leverage Ratios			
Debt/equity (x)	0.29	0.30	0.29
Net debt/ Equity (x)	0.13	0.10	0.10
Net debt/Ebitda	0.46	0.46	0.35
Interest Coverage ratio (x)	8.4	6.7	9.2
Cash Flow Ratios			
OCF/Sales	13%	10%	12%
OCF/Ebitda	94%	81%	72%
OCF/Capital Employed	19%	13%	15%
FCF/Sales	7%	1%	1%
Payout ratio (Div/NP) (%)	19	11	8
AEPS (Rs.)	35	33	49
AEPS Growth (%)	24	-5	47
CEPS (Rs.)	52	50	69
DPS (Rs.)	7	4	4

Source: Company, Axis Securities Research

JK Lakshmi Cement Price Chart and Recommendation History



Date	Reco	TP	Research
13-Feb-23	BUY	840	Result Update
23-May-23	BUY	720	Result Update
31-Jul-23	BUY	710	Result Update
11-Aug-23	BUY	710	AAA
07-Nov-23	BUY	880	Result Update
20-Dec-23	BUY	1,000	Company Update
14-Feb-24	BUY	1,000	Result Update
28-May-24	BUY	950	Result Update
02-Aug-24	BUY	950	Result Update
29-Aug-24	BUY	950	AAA
11-Nov-24	BUY	900	Result Update

Source: Axis Securities Research

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Compliance Officer Details: Name – Mr. Maneesh Mathew, Tel No. – 022-68555574, Email id – compliance.officer@axisdirect.in.;

Registered Office Address – Axis Securities Limited, Unit No.002, Building- A, Agastya Corporate Park, Piramal Realty, Kamani Junction, Kurla (W), Mumbai – 400070.

Administrative office address: Axis Securities Limited, Aurum Q Parć, Q2 Building, Unit No. 1001, 10th Floor, Level – 6, Plot No. 4/1 TTC, Thane – Belapur Road, Ghansoli, Navi Mumbai, Pin Code – 400710.

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BUY	More than 10%
HOLD	Between 10% and -10%
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NOT RATED	We have forward looking estimates for the stock, but we refrain from assigning valuation and recommendation.
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Note: Returns stated in the rating scale are our internal benchmark.