

Robust Operating Performance; New Capex Announced

Est. Vs. Actual for Q3FY24: Revenue – **MISS**; EBITDA Margin– **BEAT**; PAT – **BEAT**

Change in Estimates post Q3FY24 (Abs)

FY24E/FY25E/FY26E: Revenue: -5%/-5%/-4%; EBITDA: -6%/-3%/2%; PAT: -7%/-4%/3%

Recommendation Rationale

- Capacity expansion to support Volume/Revenue growth:** The company's capacity expansion program at its subsidiary UCWL is progressing well (1.5 Mn tonnes per year of clinker and 2.5 mtpa grinding unit) at a Capex of Rs 1,650 Cr) and is expected to be operational by Q2FY25. The clinker capacity has already been commercialized. The company is also setting up a grinding unit of 1.35 mtpa in Surat at a capital cost of Rs 220 Cr, which is to be funded out of a mix of internal accrual and debt. This facility is expected to commence in FY26. Furthermore, it announced a major capacity expansion plan of 4.6 mtpa Cement Grinding and 2.3 mtpa Clinker at a capital cost of Rs 2,500 Cr (USD 65/Tonne) to be commissioned in phases over FY26-27. All these expansions are expected to boost its market share and revenue growth moving ahead. We expect the company to grow its revenue at a CAGR of 9% over FY23-26E.
- Working on many levers to increase its EBITDA/tonne:** During the quarter, the company reported EBITDA/tonne of Rs 1,028, the highest in recent times, on the back of many initiatives undertaken. It expects to consolidate on initiatives such as optimizing geo-mix, achieving higher production and sale of blended cement, increasing the proportion of trade sales, premium and value-added products, logistic efficiency, and using more renewable power. We expect the company to grow EBITDA/tonne at 18% CAGR over FY23-26E to Rs 1,100/tonne. This will be driven by improved realization, higher volume, and cost-saving initiatives.
- Guidance of double-digit volume growth in FY24:** Cement demand in India remains robust, driven by higher government thrust on developing the country's infrastructure as well as robust real estate demand. The revival of private Capex will also aid in increasing cement demand. The company has guided for double-digit volume growth in FY24. We estimate volume growth of 7% CAGR over FY23-FY26E.

Sector Outlook: Positive

Company Outlook & Guidance: The company has reduced its volume growth guidance from the earlier 12%-15% to 10%-12% on the back of soft demand witnessed in Jan'24 and early part of Feb'24 on a consolidated basis.

Current Valuation: 9x FY26E EV/EBITDA (Earlier Valuation: 8.5x FY26 EV/EBITDA)

Current TP: Rs 1,000/share (Earlier TP: Rs 1,000/share)

Recommendation: We maintain our **BUY** recommendation on the stock.

Alternative BUY Ideas from our Sector Coverage

ACC (TP – 2,750/share), UltraTech Cement Ltd (TP – 11,110/share), Shree Cement (TP- 31,470/share), JK Cement (TP-4,400/share), Star Cement (TP-225/share), Dalmia Bharat (TP- 2460/share).

Financial Performance

JKLC reported a good operating performance during the quarter, positively impacted by higher demand and improved realization. Its revenue grew by 7% YoY, marginally below expectations, driven by demand and better realization YoY. The company's EBITDA/APAT grew by 52%/69% owing to lower costs and better realization. The company reported EBITDA margins of 15.3% against 10.7% YoY (Our estimate of 14.1%). The company reported a profit of Rs 125 Cr, higher by 69%/49% YoY/QoQ.

The quarter's volume stood at 2 million tonnes per annum (mntpa), up 10% YoY but down 13% QoQ. JKLC's EBITDA/tonne stood at Rs 705, up 17%/23% YoY/QoQ, and it reported blended realization/tonne of Rs 5,737, up 3%/2% YoY/QoQ. The company's cost/tonne remained flatish YoY/QoQ at Rs 5,032.

Outlook: Given the company's superior positioning in the key markets of North, West, and East India, along with various initiatives including its focus on increasing sales of premium and value-added products, higher blending ratio and trade sales, more use of green energy, and direct dispatches, are expected to enhance its topline and margins. We expect the company to grow its Volume/Revenue/EBITDA/APAT at a CAGR of 7%/9%/25%/27% over FY23-FY26E.

Valuation & Recommendation

The stock is currently trading at 10x/8x EV/EBITDA of FY25E/FY26E. We maintain our **BUY** rating on the stock with a TP of Rs 1,000/share, implying an upside potential of 13% from the CMP.

Key Financials (Standalone)

(Rs Cr)	Q3FY24	QoQ (%)	YoY (%)	Axis Est.	Variance
Net Sales	1,586	9	7	1,616	-2%
EBITDA	242	36	52	228	6%
EBITDA Margin	15.3%	300bps	460bps	14.1%	120bps
Net Profit	124	49	69	111	12%
EPS (Rs)	10.5	49	69	9.4	12%

Source: Company, Axis Research

(CMP as of 13th Feb, 2024)

CMP (Rs)	886
Upside /Downside (%)	13%
High/Low (Rs)	999/607
Market cap (Cr)	10,437
Avg. daily vol. (6m)Shrs.	3,85,000
No. of shares (Cr)	11.8

Shareholding (%)

	June-23	Sep-23	Dec-23
Promoter	46.3	46.3	46.3
FIs	11.5	10.5	10.8
MFs / UTI	23.0	22.9	22.8
Banks / FIs	0.0	0.0	0.0
Others	19.2	20.2	20.0

Financial & Valuations

Y/E Mar (Rs Cr)	FY24E	FY25E	FY26E
Net Sales	6,382	7,021	7,816
EBITDA	858	1,109	1,362
Net Profit	424	541	678
EPS (Rs)	36	46	58
PER (x)	26	20	16
P/BV (x)	3.5	3.1	2.6
EV/EBITDA (x)	13	10	9
ROE (%)	15	16	17

Change in Estimates (%)

Y/E Mar	FY24E	FY25E	FY26E
Sales	-5%	-5%	-4%
EBITDA	-6%	-3%	2%
PAT	-7%	-4%	3%

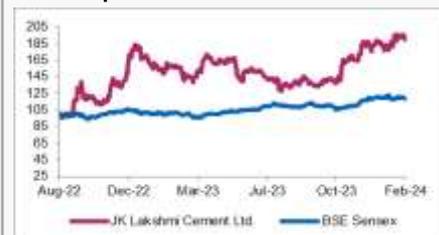
ESG disclosure Score**

Environmental Disclosure	41.5
Social Disclosure Score	39.4
Governance Disclosure Score	85.0
Total ESG Disclosure Score	55.0
Sector Average	49.0

Source: Bloomberg, Scale: 0.1-100

**Note: This score measures the amount of ESG data a company reports publicly and does not measure the company's performance on any data point. All scores are based on 2022 disclosures

Relative performance



Source: Ace Equity, Axis Securities

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Key Concall Highlights

- **Capacity Expansion:** The company's capacity expansion program at its subsidiary UCWL is progressing well, with a clinker capacity of 1.5 mtpa and a 2.5 mtpa grinding unit, at a Capex of Rs 1,650 Cr, expected to be operational by Q2FY25. The clinker capacity has been commercialized and will help increase volumes as the company will use clinker produced at UCWL for grinding. UCWL will supply the clinker to the parent company on a cost-plus basis. The company also announced the setting up of a grinding unit in Surat of 1.35 mtpa at a capital cost of Rs 220 Cr to be funded out of a mix of internal accrual and debt. This facility is expected to commence in FY26.
- **Capacity Expansion Plans:** The company is expanding the Clinker Capacity at its integrated Cement Plant at Durg in Chhattisgarh by establishing an Additional Clinker Line of 2.3 MTPA. Additionally, it plans to set up Four Cement Grinding Units totalling 4.6 MTPA at Durg in Chhattisgarh, along with Three Split Location Cement Grinding Units having an aggregate Cement Grinding Capacity of 3.4 MTPA at Prayagraj in Uttar Pradesh, Madhubani in Bihar, and Patratu in Jharkhand. The Project is estimated to cost Rs 2,500 Cr, with funding proposed through Term Loans from Banks amounting to Rs 1,750 Cr and the remaining balance through Internal Accruals. Furthermore, the company is constructing a Railway Siding at its Durg Cement Plant for Rs 325 Cr, with Rs 225 Cr to be funded through debt and the remaining from Internal Accruals. These units are scheduled to be commissioned in two phases.

Phase I: - Clinker line of 2.3 MTPA and 2 GUs of 1.2 MTPA each by Mar'26

Phase II: - 2 GUs of 1.2 MTPA and 1.0 MTPA by Mar'27

- **Volume:** During the quarter, the company achieved a volume growth of 2%. Blended cement sales constituted 65% of total sales, with the remaining 35% being OPC. The ratio of trade to non-trade sales stood at 58% to 42% during the quarter, compared to 62% to 38% previously. Premium cement accounted for 25% of total trade sales in the quarter. Grinding capacity utilization reached 79%, while clinker utilization exceeded capacity at 105%. The company aims to increase cement mix sales to 70%-75% and to outpace the industry growth rate.
- **Consolidation of JK Lakshmi & UCWL:** The company has formed a committee to proceed with the consolidation of JK Lakshmi with UCWL and consolidation is expected to happen in FY25.
- **Sales of VAP products were Rs 134 Cr** in this quarter as against Rs 133 in Q2FY24. The company is achieving an EBITDA margin of 5% from VAP products as against 3% in Q2FY23. It is also setting up a wall putty plant in Alwar Rajasthan. The company aims to take the revenue from VAP products to Rs 1,000 Cr in the next 3 years.
- **Pricing:** Cement prices have declined in most of the regions and are currently lower by 2-3% compared to Q3FY24 exit prices. The company expects prices to trend higher but this will depend on market dynamics.
- **Power/Fuel:** Cost per Kcal was Rs 1.78 compared to Rs 1.90 in Q2FY24 and is expected to decrease to 1.70 in Q4FY24. The company is setting up a solar power plant at its Durg facility, which is expected to increase the proportion of green energy in the plant to 80%. The plant is expected to be operational in Q4FY24.
- **Freight:** Lead distance in the quarter was 377 km, down 10 km QoQ. Freight cost per tonne was higher by 5% YoY at Rs 1,330/tonne owing to the implementation of busy season charges by Railways. The company transported 90% of the volume by road and the rest by rail.
- **Capex:** The company has guided for a Capex of Rs 500 Cr/ Rs800 Cr/Rs 1,000 Cr in FY24/FY25/FY26. This includes the construction of a WHRS plant at Sirohi, AAC block at Alwar, a rail siding and a conveyor belt at Durg, capex on new expansion and other maintenance Capex. It spent Rs 250 Cr on capital expenditure in 9MFY24. Total capex including expansion in North- East would entail capex of Rs 4,000 Cr .
- **Debt/Cash:** The current gross debt stands at Rs 720 Cr, cash/cash equivalent at Rs 675 Cr. The net debt on a standalone basis stands at Rs 50 Cr. The company aims to raise debt of Rs 1700-1800 Cr to to fund the capex announced over FY25-FY26.
- **Other Expenses:** On a per-tonne basis, other expenses increased by 4% YoY to Rs 717/tonne.

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	7,021	7,816	7426	8104	-5%	-4%
EBITDA	1,109	1,362	1147	1331	-3%	2%
PAT	541	678	565	658	-4%	3%

Source: Company, Axis Securities

Result Review Q3FY24

(Rs Cr)	Quarterly Performance				
	Q3FY24	Q2FY24	Q3FY23	% Chg QoQ	% Chg YoY
Net sales	1586	1453	1,489	9%	7%
Expenditure	1344	1274	1,329	5%	1%
EBITDA	242	179	160	36%	52%
Other income	17	15	16	13%	9%
Interest	21	23	25	-10%	-17%
Depreciation	51	48	48	8%	7%
PBT	188	123	102	52%	83%
Tax	63	40	29	58%	120%
Adjusted PAT	124	83	74	49%	69%
EBITDA margin (%)	15.3%	12.3%	10.7%	300bps	460bps
EPS (Rs)	10.5	7.1	6.3	49%	69%

Source: Company, Axis Securities

Volume/ Realization / Cost Analyses

	Quarterly Performance				
	Q3FY24	Q2FY24	Q3FY23	% Chg QoQ	% Chg YoY
Volume/mnt	2.36	2.53	2.32	-7%	2%
Realisation/tonne (Rs)	6735	5737	6,430	17%	5%
Cost/tonne (Rs)	5706	5032	5741	13.4%	-0.6%
Raw material/tonne (Rs)	1856	1539	1,436	21%	29%
Staff Cost/tonne (Rs)	415	370	379	12%	9%
Power & Fuel/tonne (Rs)	1389	1373	1,877	1%	-26%
Freight/tonne (Rs)	1330	1125	1,271	18%	5%
Other Expenses /tonne (Rs)	717	626	778	15%	-8%
EBITDA/tonne (Rs)	1028	705	689	46%	49%

Source: Company, Axis Securities

Financials (Standalone)

Profit & Loss

(Rs Cr)

Y/E March	FY23	FY24	FY25E	FY26E
Net sales	6071	6382	7021	7816
Other operating income	0	0	0	0
Total income	6071	6382	7021	7816
Raw Material	1582	1774	1898	2069
Power & Fuel	1544	1399	1497	1632
Freight & Forwarding	1209	1273	1375	1512
Employee benefit expenses	349	379	402	442
Other Expenses	683	698	740	799
EBITDA	704	858	1109	1362
Other income	62	65	60	66
PBIDT	767	923	1169	1429
Depreciation	194	197	241	288
Interest & Fin Chg.	92	95	121	129
E/o income / (Expense)	0	0	0	0
Pre-tax profit	481	632	807	1011
Tax provision	151	209	266	334
Minority Interests				
Associates	0	0	0	0
RPAT	331	424	541	678
Other Comprehensive Income	0	0	0	0
APAT after Comprehensive Income	331	424	541	678

Source: Company, Axis Securities

Balance Sheet

(Rs Cr)

Y/E March	FY23	FY24E	FY25E	FY26E
Total assets	5211	5548	6229	7008
Net Block	2766	3011	3753	4559
CWIP	65	28	28	28
Investments	414	414	414	414
Wkg. cap. (excl cash)	249	265	286	314
Cash / Bank balance	335	524	407	306
Misc. Assets	138	131	134	139
Capital employed	5211	5548	6229	7008
Equity capital	59	59	59	59
Reserves	2665	3044	3541	4174
Minority Interests	0	0	0	0
Borrowings	745	745	895	995
DefTax Liabilities	0	0	0	0
Other Liabilities and Provision	1742	1700	1734	1780

Source: Company, Axis Securities

Cash Flow

(Rs Cr)

Y/E March	FY23	FY24E	FY25E	FY26E
Profit before tax	481	632	807	1011
Depreciation	194	197	241	288
Interest Expenses	92	95	121	129
Non-operating/ EO item	-51	-65	-60	-66
Change in W/C	-164	-16	-21	-28
Income Tax	-91	-209	-266	-334
Operating Cash Flow	461	634	822	1000
Capital Expenditure	-147	-441	-983	-1094
Investments	30	400	0	0
Others	26	65	60	66
Investing Cash Flow	-91	24	-923	-1028
Borrowings	-188	0	150	100
Interest Expenses	-87	-95	-121	-129
Dividend paid	-59	-44	-44	-44
Financing Cash Flow	-334	-139	-15	-73
Change in Cash	36	519	-117	-101
Opening Cash	67	139	328	211
Closing Cash	139	328	211	110

Source: Company, Axis Securities

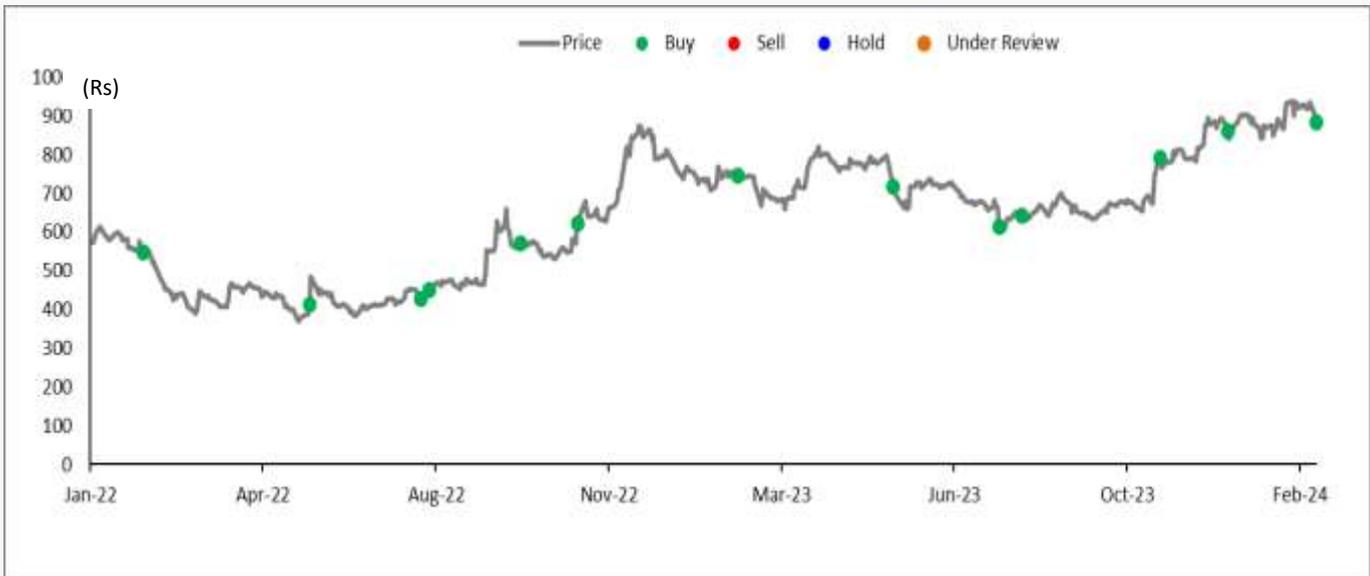
Ratio Analysis

(%)

Y/E March	FY23	FY24E	FY25E	FY26E
Operational Ratios				
Gross profit margin	28.6%	30.3%	32.1%	33.3%
EBITDA margin	11.6%	13.5%	15.8%	17.4%
PAT margin	5.4%	6.6%	7.7%	8.7%
Depreciation / G. block	5%	4%	4%	4%
Growth Indicator				
Sales growth	20%	5%	10%	11%
Volume growth	0%	-1%	8%	10%
EBITDA growth	-12%	22%	29%	23%
PAT growth	-26%	28%	28%	25%
Efficiency Ratios				
Sales/Gross block (x)	1.5	1.4	1.3	1.2
Sales/Net block(x)	2.2	2.1	1.9	1.7
Working capital/Sales (%)	0.19	0.12	0.11	0.10
Valuation Ratios				
PE (x)	32	25	19	15
P/BV (x)	3.83	3.36	2.90	2.46
EV/Ebitda (x)	14.7	12.3	9.7	8.1
EV/Sales (x)	1.7	1.7	1.5	1.4
MCap/ Sales (x)	1.7	1.6	1.5	1.3
EV/Tonne \$	95	97	99	88
Return Ratios				
	13	15	16	17
ROE	15	18	20	22
ROCE	20	21	23	24
ROIC				
Leverage Ratios				
Debt / equity (x)	0.27	0.24	0.25	0.24
Net debt/ Equity (x)	-0.04	0.04	0.10	0.14
Net debt/Ebitda	-0.14	0.13	0.34	0.43
Interest Coverage ratio (x)	6.3	7.7	7.7	8.8
Cash Flow Ratios				
OCF/Sales	7%	10%	12%	13%
OCF/Ebitda	64%	74%	74%	73%
OCF/Capital Employed	12%	15%	17%	18%
FCF/Sales	5%	3%	-2%	-1%
Other Ratios				
AEPS (Rs.)	13	10	8	7
AEPS Growth (%)	28	36	46	58
CEPS (Rs.)	-26	28	28	25
DPS (Rs.)	45	53	66	82

Source: Company, Axis Securities

JK Lakshmi Cement Price Chart and Recommendation History



Date	Reco	TP	Research
04-Feb-22	BUY	640	Result Update
20-May-22	BUY	620	Result Update
29-Jul-22	BUY	570	Result Update
03-Aug-22	BUY	570	AAA
30-Sep-22	BUY	680	Company Update
07-Nov-22	BUY	745	Result Update
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

Source: Axis Securities

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