

## Realisation stability critical for EBITDA/t improvement

**About the stock:** JK Lakshmi mainly caters to the north, west & eastern markets with total capacity of 13.9 MT (including subsidiary). It has integrated units at Sirohi, Udaipur (Rajasthan), and Durg (Chhattisgarh) while grinding units are located at Jhajjar (Haryana), Cuttack (Odisha), Kalol and Surat (Gujarat).

- It also has 117 MW power plant (74 MW CPP, 33 MW WHRS and 10 MW Solar) that fulfils 75% of its total power requirements
- The company is now adding 2.5 MT cement capacity (1.5 MT clinker) through its subsidiary unit UCWL at a cost of ~₹ 1650 crore (expected by Q1FY25E)
- The company intends to take its total cement capacity to 30 MT by 2030

**Q3FY23 Results:** JK Lakshmi's result print was a mixed bag with revenues coming in better than our expectations owing to better-than-expected utilisation rates but significantly higher power and fuel expenses impacted profitability.

- Revenue grew 25% YoY to ₹ 1488.5 crore, mainly led by higher realisations, which increased 18% YoY (1.1% QoQ)
- Absolute EBITDA grew 15% QoQ (9% YoY) to ₹ 159.6 crore. EBITDA margins declined 155 bps YoY to 10.7% (I-direct estimate: 11.9%)
- Owing to lower tax rate (28% in Q3FY23 vs. 35% in Q3FY22), PAT grew 24% YoY to ₹ 73.6 crore (I-direct estimate: ₹ 73.4 crore)

**What should investors do?** While growth remain a concern till the time new capacity gets commissioned, cooling down of cost pressure along with increase in renewable energy share remain key positives for margin expansion.

- Given the recent rally in stock price (up 69% in last six months), most positives seem to have been priced in. We await a better entry price point and, hence, downgrade it from BUY to **HOLD** with a revised target price

**Target Price and Valuation:** We value the company at ₹ 810 i.e. 9.5x FY24E EV/EBITDA (earlier target price: ₹ 780).

### Key triggers for future price performance:

- With capacity annual utilisation of ~90%, volume growth to remain subdued till FY24E as the new capacity will come on stream by Q1FY25E
- Constantly striving to enhance realisations with higher focus on strengthening its geographical (geo) mix
- B/s strength to remain healthy despite ongoing capex of ~₹ 1650 crore for its subsidiary unit UCWL

**Alternate Stock Idea:** Apart from JK Lakshmi, in our cement sector coverage, we also like central based player Heidelberg Cement.

- The company is the cost efficient player in central India with a strong b/s. It has a good dividend yield of over 5%
- BUY with a target price of ₹ 220/share



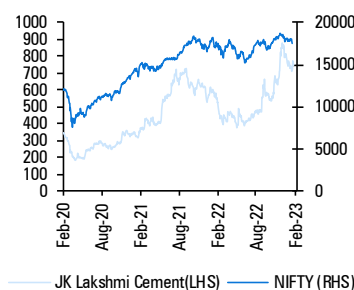
### Particulars

Particular	Amount
Mcap	₹ 8780 crore
Debt (FY22)	₹ 1207 crore
Cash & Invest (FY22)	₹ 886 crore
EV	₹ 9102 crore
52 week H/L	₹897 / ₹ 368
Equity cap	₹ 59 crore
Face value	₹ 5

### Shareholding pattern

(in %)	Mar-22	Jun-22	Sep-22	Dec-22
Promoter	46.31	46.31	46.31	46.31
FII	12.29	12.14	12.84	13.81
DII	25.87	25.21	24.66	25.56
Others	15.53	16.34	16.19	14.32

### Price Chart



### Key risks

- Any delay in commissioning of new capacities
- Higher than anticipated decline in prices of key inputs like coal/petcoke

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### Key Financial Summary

Key Financials	FY19	FY20	FY21	FY22	3 Year CAGR (%)	FY23E	FY24E	2 Year CAGR (%)
Net Sales	3882	4044	4385	5041	9.1	6019	6381	12.5
EBITDA	415	672	790	801	24.5	743	988	11.1
EBITDA (%)	10.7	16.6	18.0	15.9		12.3	15.5	
PAT	80	235	364	426	75.0	365	497	8.0
EPS (₹)	6.8	22.6	33.5	38.2		31.0	42.2	
EV/EBITDA	24.1	14.5	11.5	11.4		12.1	8.7	
EV/Tonne (\$)	133	105	98	98		97	93	
RoNW	5.2	15.5	19.0	18.3		14.7	17.1	
RoCE	9.3	17.1	21.1	18.1		17.0	21.7	

## Key performance highlights

- Revenue grew 25% YoY to ₹ 1488.5 crore (I-direct estimate: ₹ 1434.6 crore) mainly led by higher realisations, which increased 18% YoY (1.1% QoQ) to ₹ 5716/t (I-direct estimate: ₹ 5770/t). Sales volume grew 6% YoY to 2.60 MT, better than our expectations of 2.49 MT. Capacity utilisation rates improved by 500 bps YoY to 89%
- The management, in the previous call, had indicated power & fuel expense to be up ~9% QoQ. However, the cost grew sharply by 15% QoQ to ₹ 1668/t (I-direct estimate: ₹ 1550/t). Freight expenses also increased 4% QoQ to ₹ 1130/t. Lower raw material expense (down 17% QoQ) and employee expenses (down 7% QoQ) partly negated the impact of higher power & freight expenses. Subsequently, overall cost of production increased marginally QoQ to ₹ 5103/t (I-direct estimate: ₹ 5085/t). Ensuing EBITDA/t was at ₹ 613/t (I-direct estimate: ₹ 685/t, Q2FY23: ₹ 601/t, Q3FY22: ₹ 595/t)
- Absolute EBITDA grew 15% QoQ (9% YoY) to ₹ 159.6 crore (I-direct estimate: ₹ 170.2 crore). EBITDA margins declined 155 bps YoY to 10.7% (I-direct estimate: 11.9%)
- Owing to lower tax rate (28% in Q3FY23 vs. 35% in Q3FY22), PAT grew by 24% YoY to ₹ 73.6 crore (I-direct estimate: ₹ 73.4 crore)
- The company's subsidiary Udaipur Cement Works (UCWL) is expanding its cement capacity by 2.5 MT, which is likely to be commissioned in Q1FY25E. On completion of this expansion, consolidated capacity of JKLC and UCWL will improve to 16.4 MT

## Key conference call highlights

- The management indicated that realisations are expected to remain range bound with a positive bias as it continues to strengthen the geo mix. The efforts are to maximise sales in the western part owing to better pricing and profitability. The price gap range of 12-14% between large and mid-cement players like JKLC has now got neutralised
- Fuel prices increased from ₹ 2.30/Kcal to ₹ 2.57/Kcal on a sequential basis. We expect costs to remain in a similar range in Q4FY23E (probably owing to high cost inventory). The management expects EBITDA/t to improve in Q4FY23 (on a QoQ basis) mainly on account of operational efficiency
- Lead distance declined marginally from 401 km to 396 km (on a QoQ) basis but freight cost was up probably owing to levy of busy season surcharge
- The company has set a target to improve its profitability by ~₹ 300/t through; a) efficiency in geo mix leading to better realisation (₹ 200/t), b) lower cost of production (₹ 50/t) and c) efficiency in logistics
- The company is well secured in terms of procuring limestone. It has reserves in Sirohi, which are due for renewal in 2030 (the management is confident of getting it renewed). It has also acquired new limestone reserves in Nagaur (awaiting statutory approvals)

Owing to capacity constraints, we expect volume growth to be restricted at 3% CAGR in FY22-24E with capacity utilisation hovering in the range of 91-95%. Currently, it has an overall capacity of 13.9 MT (including 2.2 MT of UWCL) and 1 MT outsourced facility in Amethi. The company will be adding cement capacity of 2.5 MT (1.5TM clinker) at its existing plant in Udaipur (through subsidiary company UCWL) with a total capex of ₹ 1,650 crore. The same is likely to get commissioned by the end of Q1FY25E. Hence, in the near term, the sales growth is expected to be driven mainly by realisations (9% CAGR). We expect the company to exit FY23E with EBITDA/t of ₹ 699 (9MFY23: ₹ 670/t) and improve by another ~ ₹ 180/t to ₹ 800/t mainly on account of decline in COP. We do not expect realisations to decline in FY24E on the back of healthy underlying demand in industry (8-9% growth).

Exhibit 1: Variance analysis

Particulars	Q3FY23	Q3FY23E	Q3FY22	YoY (%)	Q2FY23	QoQ (%)	Comments
Net Sales	1488.5	1434.6	1193.4	24.7	1,302.7	14.3	Growth for the quarter was mainly led by higher realisations
Other Incomes	15.6	13.0	16.4	-5.0	21.4	-27.1	
Raw Material Expenses	332.3	371.3	270.6	22.8	353.1	-5.9	
Employee Expenses	87.7	84.8	86.8	1.1	83.3	5.3	
Change in stock	0.0	0.0	72.2	-100.0	135.6	-100.0	
Power and fuel	434.5	385.4	293.2	48.2	333.2	30.4	
Freight	294.2	261.1	248.6	18.3	249.4	18.0	
Others	180.2	161.9	147.9	21.9	145.1	24.2	
EBITDA	159.6	170.2	146.4	9.0	138.6	15.1	
EBITDA Margin (%)	10.7	11.9	12.3	-155 bps	10.6	8 bps	
PAT	73.6	73.4	59.2	24.2	59.0	24.8	

Key Metrics

Volume (MT)	2.60	2.49	2.46	5.9	2.31	13.0
Realisation (₹)	5,716	5,770	4,853	17.8	5,651	1.1
EBITDA per Tonne (₹)	613	685	595	2.9	601	1.9

Pet tonne cost	Q3FY23	Q3FY23E	Q3FY22	YoY (%)	Q2FY23	QoQ (%)	
Raw Material Expenses	1,276	1,493	1,100	16.0	1,532	-16.7	
Employee Expenses	337	341	353	-4.5	361	-6.8	
Power and fuel	1,668	1,550	1,192	39.9	1,446	15.4	Fuel prices increased from ₹ 2.30/Kcal to ₹ 2.57/Kcal on a sequential basis
Freight	1,130	1,050	1,011	11.8	1,082	4.4	Lead distance declined marginally from 401 km to 396 km
Others	692	651	601	15.1	629	10.0	
Total	5,103	5,085	4,258	19.9	5,050	1.1	
EBITDA	613	685	595	2.9	601	1.9	

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

₹ Crore)	FY23E			FY24E		
	Old	New	% Change	Old	New	% Change
Revenue	5,851.2	6,019.2	2.9	6,323.7	6,381.2	0.9
EBITDA	830.6	742.8	-10.6	1,098.1	988.5	-10.0
EBITDA Margin (%)	14.2	12.3	-185 bps	17.4	15.5	-187 bps
PAT	393.9	365.0	-7.3	544.6	496.9	-8.8
EPS (₹)	33.5	31.0	-7.3	46.3	42.2	-8.8

Source: Company, ICICI Direct Research

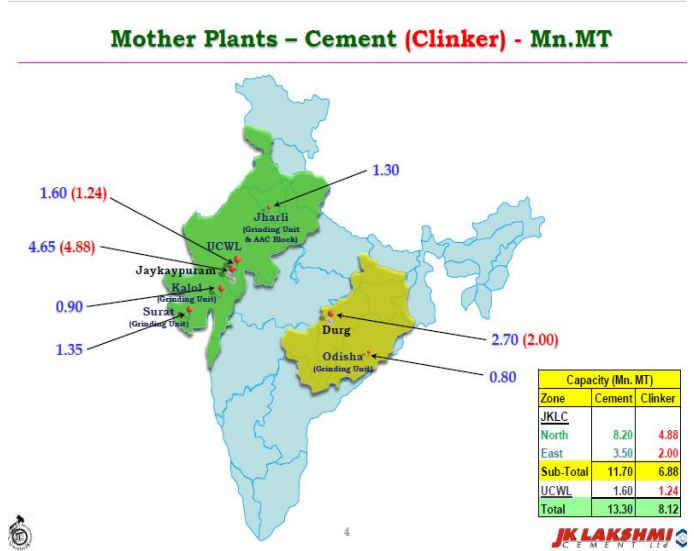
Financial story in charts

Exhibit 3: Clinker and cement capacity

State	Region	Capacity			
		FY21	FY22	FY24E	
<b>Clinker capacity (Standalone)</b>		<b>6.9</b>	<b>6.9</b>	<b>6.9</b>	
Standalone Cement Capacity					
Rajasthan	North	4.7	4.7	4.7	
Gujarat	West	0.9	0.9	0.9	
Haryana	North	1.3	1.3	1.3	
Chhattisgarh	East	2.7	2.7	2.7	
Gujarat	West	1.3	1.3	1.3	
Odisha	East	0.8	0.8	0.8	
<b>Total cement capacity [A]</b>		<b>11.7</b>	<b>11.7</b>	<b>11.7</b>	
<b>Rajasthan (Subsidiary)</b>					
Clinker capacity		1.2	1.5	3.0	
Cement Capacity [B]		West	1.6	2.2	4.7
<b>Total Capacity [A+B]</b>		<b>13.3</b>	<b>13.9</b>	<b>16.4</b>	

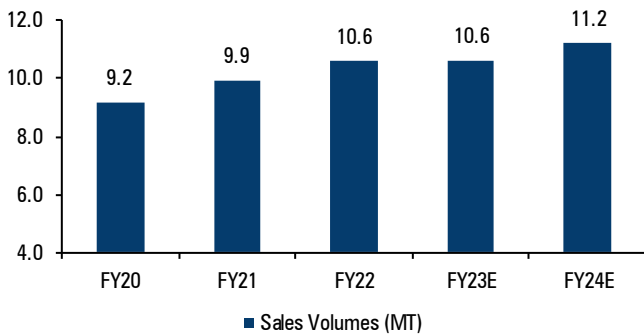
Source: Company, ICICI Direct Research

Exhibit 4: Location wise cement capacity



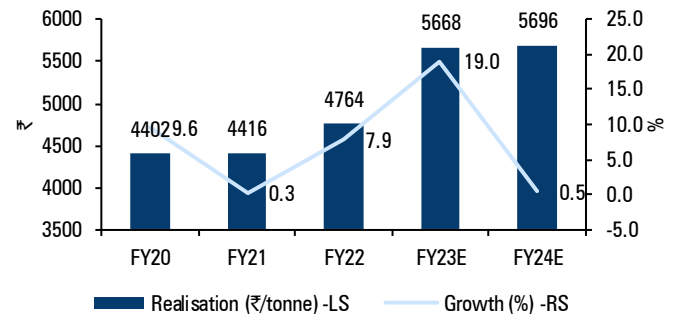
Source: Company, ICICI Direct Research

Exhibit 5: Volumes to grow at 3% CAGR over FY22-24E



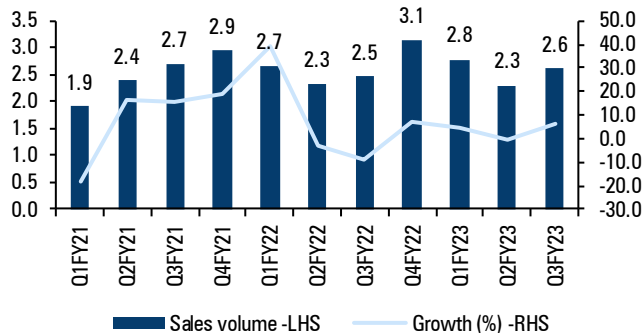
Source: Company, ICICI Direct Research

Exhibit 6: Realisations expected to stabilise at current levels for FY24E on account of strong demand visibility



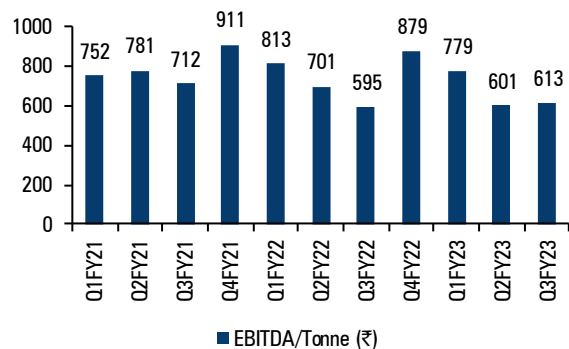
Source: Company, ICICI Direct Research

Exhibit 7: Capacity utilisation improves to 89% in Q3FY23 vs. 84% YoY (standalone)



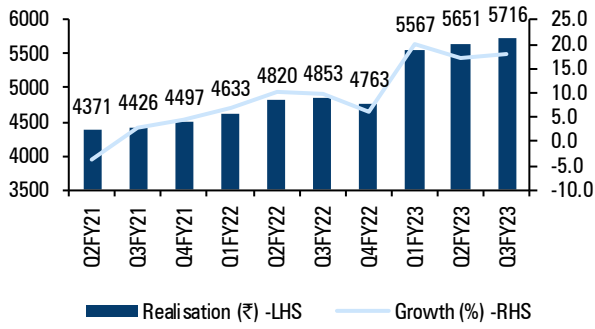
Source: Company, ICICI Direct Research

Exhibit 8: ..EBITDA/t improves marginally on a QoQ basis



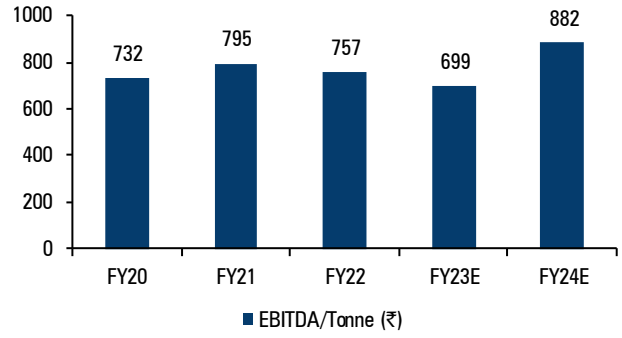
Source: Company, ICICI Direct Research

Exhibit 9: Realisations up 17.8% YoY



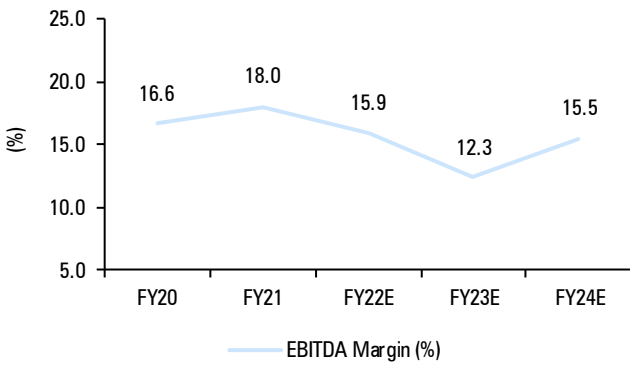
Source: Company, ICICI Direct Research

Exhibit 10: EBITDA/t trend



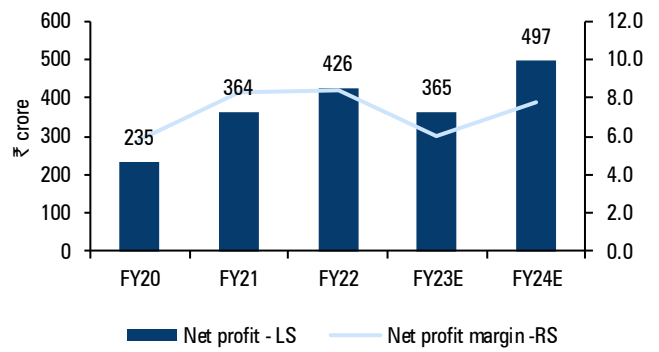
Source: Company, ICICI Direct Research

Exhibit 11: Margins to improve in FY24E on likely stabilisation of fuel prices



Source: Company, ICICI Direct Research

Exhibit 12: PAT to improve from FY24 led by improving operating profits



Source: Company, ICICI Direct Research

## Financial Summary (Standalone)

Exhibit 13: Profit & Loss Account

(Year-end March)	FY20	FY21	FY22	FY23E	FY24E
<b>Operating Income</b>	<b>4,043.5</b>	<b>4,384.7</b>	<b>5,040.8</b>	<b>6,019.2</b>	<b>6,381.2</b>
Growth (%)	4.2	8.4	15.0	19.4	6.0
Raw material	952.4	1083.9	1238.3	1461.5	1568.4
Power & Fuel	843.9	779.8	1065.6	1601.6	1593.1
Employees	303.1	327.0	326.4	362.6	383.2
Freight	817.6	883.2	1042.8	1162.7	1119.8
Others	454.2	521.2	566.3	688.0	728.2
Total Expenses	3,371.1	3,595.0	4,239.5	5,276.4	5,392.7
<b>EBITDA</b>	<b>672.4</b>	<b>789.7</b>	<b>801.3</b>	<b>742.8</b>	<b>988.5</b>
Growth (%)	52.2	17.5	1.5	-7.3	33.1
Depreciation	188.4	194.2	190.5	190.4	193.0
Interest	163.6	142.5	96.3	97.0	85.3
Other Income	49.3	74.6	67.3	57.4	52.0
Exceptional items	30.2	30.9	23.4	0.0	0.0
PBT	339.5	496.7	558.3	512.9	762.1
Total Tax	104.2	132.8	132.1	147.8	265.2
PAT	235.2	363.9	426.3	365.0	496.9
<b>Adjusted PAT</b>	<b>265.5</b>	<b>394.9</b>	<b>449.7</b>	<b>365.0</b>	<b>496.9</b>
Growth (%)	233.6	48.8	13.9	-18.8	36.1
<b>Adjusted EPS (₹)</b>	<b>22.6</b>	<b>33.5</b>	<b>38.2</b>	<b>31.0</b>	<b>42.2</b>

Source: Company, ICICI Direct Research

Exhibit 15: Balance Sheet summary

(Year-end March)	FY20	FY21	FY22	FY23E	FY24E
<b>Liabilities</b>					
Equity Capital	58.9	58.9	58.9	58.9	58.9
Reserve and Surplus	1,649.8	2,020.0	2,393.5	2,425.1	2,851.0
Total Shareholders func	1,708.7	2,078.9	2,452.4	2,483.9	2,909.8
Total Debt	1,398.0	1,034.2	1,207.5	1,007.5	907.5
Deferred Tax Liability	18.7	64.1	94.3	94.3	94.3
Other non-current liabilit	181.3	185.9	124.2	124.2	124.2
<b>Total Liabilities</b>	<b>3,306.7</b>	<b>3,363.1</b>	<b>3,878.4</b>	<b>3,709.9</b>	<b>4,035.8</b>
<b>Assets</b>					
Gross Block	5,121.2	5,169.1	5,436.9	5,600.1	5,755.1
Less: Acc Depreciation	2,333.1	2,527.3	2,717.7	2,908.1	3,101.2
Net Block	2,788.1	2,641.8	2,719.2	2,692.0	2,653.9
Capital WIP	151.0	227.5	113.1	100.0	100.0
Total Fixed Assets	2,939.1	2,869.3	2,832.3	2,792.0	2,753.9
Investments	416.9	367.3	548.6	548.6	548.6
Inventory	412.8	315.5	491.2	498.3	585.7
Debtors	88.2	53.7	34.5	97.4	77.4
Loans and Advances	274.9	293.1	173.8	191.2	210.3
Non current Investment	383.1	403.5	421.3	421.3	421.3
Cash	29.3	359.1	337.2	225.5	511.0
Total Current Assets	1,188.3	1,424.7	1,458.0	1,433.7	1,805.6
Creditors	1,220.7	1,279.6	933.9	1,045.1	1,052.9
Provisions	16.9	18.6	26.7	19.3	19.5
Total Current Liabilities	1,237.6	1,298.3	960.6	1,064.4	1,072.3
Net Current Assets	-49.4	126.5	497.4	369.3	733.3
<b>Application of Funds</b>	<b>3,306.7</b>	<b>3,363.1</b>	<b>3,878.4</b>	<b>3,709.9</b>	<b>4,035.8</b>

Source: Company, ICICI Direct Research

Exhibit 14: Cash flow statement

(Year-end March)	FY20	FY21	FY22	FY23E	FY24E
Profit after Tax	235.2	363.9	426.3	365.0	496.9
Add: Depreciation	188.4	194.2	190.5	190.4	193.0
(Inc)/dec in Current Assets	-80.8	131.8	-156.5	-70.0	-67.3
Inc/(dec) in CL and Prov.	93.4	60.6	-337.7	103.8	7.9
<b>CF from operations</b>	<b>436.2</b>	<b>750.6</b>	<b>122.6</b>	<b>589.2</b>	<b>630.6</b>
(Inc)/dec in Investments	-80.4	29.3	-199.2	0.0	0.0
(Inc)/dec in Fixed Assets	-77.4	-124.4	-153.5	-150.0	-155.0
Others	0.7	30.1	87.8	-17.4	-19.1
<b>CF from investing</b>	<b>-157.1</b>	<b>-65.1</b>	<b>-264.9</b>	<b>-167.4</b>	<b>-174.1</b>
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	-214.9	-363.8	173.3	-200.0	-100.0
Dividend paid	0.0	-53.2	-71.0	-56.8	-71.0
Inc/(dec) in Sec. premium	0.0	0.0	0.0	0.0	0.0
Others	-51.2	59.5	18.2	-276.7	0.0
<b>CF from financing</b>	<b>-266.1</b>	<b>-357.5</b>	<b>120.5</b>	<b>-533.5</b>	<b>-171.0</b>
Net Cash flow	13.1	328.0	-21.9	-111.7	285.5
Opening Cash	18.0	29.3	359.1	337.2	225.5
<b>Closing Cash</b>	<b>31.1</b>	<b>357.3</b>	<b>337.2</b>	<b>225.5</b>	<b>511.0</b>

Source: Company, ICICI Direct Research

Exhibit 16: Ratio sheet

(Year-end March)	FY20	FY21	FY22	FY23E	FY24E
<b>Per share data (₹)</b>					
Adjusted EPS	22.6	33.5	38.2	31.0	42.2
Cash EPS	36.0	47.4	52.4	47.2	58.6
BV	145.2	176.6	208.4	211.0	247.2
DPS	0.0	3.8	5.0	4.0	5.0
Cash Per Share	2.5	30.5	28.6	19.2	43.4
<b>Operating Ratios (%)</b>					
EBITDA Margin	16.6	18.0	15.9	12.3	15.5
PAT Margin	5.8	8.3	8.5	6.1	7.8
Inventory days	32.7	30.3	29.2	30.0	31.0
Debtor days	8.9	5.9	3.2	4.0	5.0
Creditor days	105.5	104.1	80.1	60.0	60.0
<b>Return Ratios (%)</b>					
RoE	15.5	19.0	18.3	14.7	17.1
RoCE	17.1	21.1	18.1	17.0	21.7
RoIC	17.9	24.7	21.2	19.5	27.7
<b>Valuation Ratios (x)</b>					
P/E	37.3	24.1	20.6	24.1	17.7
EV / EBITDA	14.5	11.5	11.4	12.1	8.7
EV / Net Sales	2.4	2.1	1.8	1.5	1.4
Market Cap / Sales	2.2	2.0	1.7	1.5	1.4
Price to Book Value	5.8	5.1	4.2	3.6	3.5
<b>Solvency Ratios</b>					
Debt/EBITDA	2.1	1.3	1.5	1.4	0.9
Debt / Equity	0.8	0.5	0.5	0.4	0.3
Current Ratio	0.7	0.8	1.1	1.0	1.3
Quick Ratio	0.6	0.5	0.7	0.7	0.8

Source: Company, ICICI Direct Research

## RATING RATIONALE

ICICI Direct endeavours to provide objective opinions and recommendations. ICICI Direct assigns ratings to its stocks according to their notional target price vs. current market price and then categorizes them as Buy, Hold, Reduce and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock

Buy: > 15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: < -15%



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## ANALYST CERTIFICATION

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