

Continuing to strive for better geo-mix...

About the stock: JK Lakshmi mainly caters to the north, west & eastern markets with a total capacity of 14.0 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 a 117 MW power plant (74 MW CPP, 33 MW WHRS and 10 MW solar) that fulfils 75% of its total power requirements
- JK Lakshmi 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

Q4FY23 Results: JK Lakshmi reported a subdued operational performance mainly owing to lower-than expected profitability.

- Revenue grew 15% YoY to ₹ 1488.5 crore, mainly led by higher realisations, which increased 15% YoY (down 1.3% QoQ)
- Overall COP per tonne remained flattish QoQ at ₹ 5028/t vs. our expectation of a reduction of ₹ 200/t. EBITDA/t came in at ₹ 616/t (Q3FY23: ₹ 613/t)
- Absolute EBITDA declined 31% YoY (up 18% QoQ) to ₹ 188.8 crore. PAT was at ₹ 97.0 crore (I-direct estimate: ₹ 129 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.

- We maintain our **HOLD** rating on the stock

Target Price and Valuation: We value company at ₹ 775 i.e. 8x FY25E EV/EBITDA.

Key triggers for future price performance:

- With capacity annual utilisation of ~90%, volume growth to remain subdued till FY25E as the new capacity will come on stream by Q2FY25E
- 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. Standalone company turned net debt free in FY23

Alternate Stock Idea: Apart from JK Lakshmi, in our cement sector coverage, we also like Ramco Cements. BUY with a target price of ₹ 980.



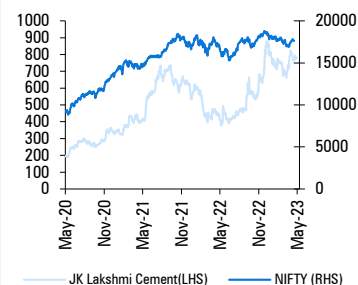
Particulars

Particular	Amount
Mcap	₹ 8357 crore
Debt (FY23)	₹ 811 crore
Cash & Invest (FY23)	₹ 845 crore
EV	₹ 8323 crore
52 week H/L	₹897 / ₹ 382
Equity cap	₹ 59 crore
Face value	₹ 5

Shareholding pattern

(in %)	Jun-22	Sep-22	Dec-22	Mar-23
Promoter	46.31	46.31	46.31	46.31
FII	12.14	12.84	13.81	11.68
DII	25.21	24.66	25.56	27.05
Others	16.34	16.19	14.32	14.96

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	FY23	4 Year CAGR (%)	FY24E	FY25E	2 Year CAGR (%)
Net Sales	3882	4044	4385	5041	6071	11.8	6657	6899	6.6
EBITDA	415	672	790	801	704	14.1	927	1062	22.8
EBITDA (%)	10.7	16.6	18.0	15.9	11.6		13.9	15.4	
PAT	80	235	364	426	331		445	539	
EPS (₹)	6.8	22.6	33.5	38.2	28.1		37.8	45.8	
EV/EBITDA	22.3	13.4	11.0	10.5	11.7		8.5	7.2	
EV/Tonne (\$)	127	97	94	79	78		74	72	
RoNW	5.2	15.5	19.0	18.3	12.1		14.3	15.0	
RoCE	9.1	16.1	18.1	17.5	13.9		17.5	18.9	

Key performance highlights and conference call takeaways

- As anticipated, given the capacity constraints, volume growth remained stagnant YoY at 3.06 MT (the company operated at 100%+ utilisation levels). Given the weak pricing environment (as witnessed for other companies), realisations declined 1.3% QoQ to ₹ 5644/t (I-direct estimate: ₹ 5705/t). Revenue grew 15% YoY to ₹ 1729 crore (the company over the past few quarters, has neutralised the price gap (12-14%) vis-a-vis large cap players)
- Manufacturing cost per tonne (RM cost+ power & fuel) increased by ₹ 73/t (QoQ) to ₹ 3018/t (vs. I-direct estimate: ₹ 2915/t). Overall COP per tonne remained flattish QoQ at ₹ 5028/t vs. our expectation of reduction of ₹ 200/t. Furthermore, owing to lower-than-expected realisations, EBITDA/t came in at ₹ 616/t (vs. I-direct estimate: ₹ 805/t, Q3FY23: ₹ 613/t, Q4FY22: ₹ 879/t)
- The company's subsidiary Udaipur Cement Works (UCW) is expanding its cement capacity by 2.5 MT, which is likely to be commissioned by Q2FY25. The clinker plant (1.5 MT) is expected to be commissioned by Q3FY24. The same would be utilised towards existing grinding units in the northern region (to a certain extent may address the mismatch of clinker-cement in the north). On completion of this expansion, consolidated capacity will improve to 18.0 MT (including outsourced unit of Ametha)
- The next leg of capacity expansion (to reach 30 MT) will be a mix of brownfield (3 MT in Durg, 3 MT in Udaipur) and greenfield projects (recently allocated mines in Nagaur & Kutch)
- For FY23, volumes (standalone) grew 7% YoY to 10.7 MT. Excluding clinker sales, volume grew 12% YoY to 10.2 MT. The company has consciously taken a decision to sharply reduce clinker sales (excess from eastern capacity). It has set an ambitious target to achieve volume growth of 19% YoY in FY24E (cement sales: ~12.0 MT)
- The management indicated that realisations are expected to remain range bound with a positive bias as it continues to strengthen the geo mix. Efforts are on to maximise sales in the western portion owing to better pricing and profitability
- In a journey to reach EBITDA of ₹ 1000/t (increment profit of ~ ₹ 300/t), the management expects ~ ₹ 200/t to be contributed through sales mix and rest through manufacturing efficiencies. Increasing share of thermal substitution rate (TSR) from current 4% to 16% (contributes ₹ 30/t) and reducing lead distance time (from 400 km to 375 km) to contribute (₹ 70/t)
- Fuel prices declined from ₹ 2.57/Kcal to ₹ 2.42/Kcal on a sequential basis with costs expected to soften further to ₹ 2.31 in Q1FY24 (savings of ~₹ 70/t). Fuel mix during the quarter was 40% coal, 44% pet coke and 16% others
- On the capex front, JK (standalone) will be incurring ₹ 200 crore capex (mainly to strengthen green initiatives) in FY24E. At a consolidated level, owing to UCW expansion, the company has guided for ₹ 500 crore capex in FY24E and ₹ 300 crore in FY25E. UCW is also planning a rights issue of ₹ 450 crore in FY24E

Exhibit 1: Variance analysis

Particulars	Q4FY23	Q4FY23E	Q4FY22	YoY (%)	Q3FY23	QoQ (%)	Comments
Net Sales	1728.9	1711.5	1497.6	15.4	1488.5	16.1	Growth mainly driven by higher realisations
Other Incomes	17.8	13.0	17.6	1.1	15.6	14.0	
Raw Material Expenses	514.0	379.6	399.4	28.7	332.3	54.7	
Employee Expenses	86.0	88.5	72.1	19.2	87.7	-2.0	
Power and fuel	410.3	495.0	305.4	34.4	434.5	-5.6	
Freight	353.0	324.0	320.0	10.3	294.2	20.0	
Others	176.8	183.0	124.5	42.0	180.2	-1.9	
EBITDA	188.8	241.4	276.2	-31.6	159.6	18.3	
EBITDA Margin (%)	10.9	14.1	18.4	-752 bps	10.7	20 bps	
PAT	97.0	129.9	171.6	-43.5	73.6	31.9	

Key Metrics

Volume (MT)	3.1	3.00	3.0	0.6	2.6	17.6	Capacity constraints led to stagnant YoY growth
Realisation (₹)	5,644	5,705	4,918	14.8	5,716	-1.3	Weak pricing environment impacted realisations
EBITDA per Tonne (₹)	616	805	907	-32.0	613	0.6	

Pet tonne cost	Q4FY23	Q4FY23E	Q4FY22	YoY (%)	Q3FY23	QoQ (%)	
Raw Material Expenses	1,678	1,265	1,312	27.9	1,276	31.5	
Employee Expenses	281	295	237	18.5	337	-16.7	
Power and fuel	1,340	1,650	1,003	33.6	1,668	-19.7	Fuel prices declined from ₹ 2.57/Kcal to ₹ 2.42/Kcal on a QoQ basis
Freight	1,152	1,080	1,051	9.7	1,130	2.0	Lead distance increased from 396 km to 400 km
Others	577	610	409	41.2	692	-16.6	
Total	5,028	4,900	4,011	25.3	5,103	-1.5	

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹ Crore)	FY24E			FY25E
	Old	New	% Change	Introduced
Revenue	6,381.2	6,657.4	4.3	6,898.6
EBITDA	988.5	926.5	-6.3	1,062.1
EBITDA Margin (%)	15.5	13.9	-157 bps	15.4
PAT	496.9	445.5	-10.4	539.2
EPS (₹)	42.2	37.8	-10.4	45.8

Source: Company, ICICI Direct Research

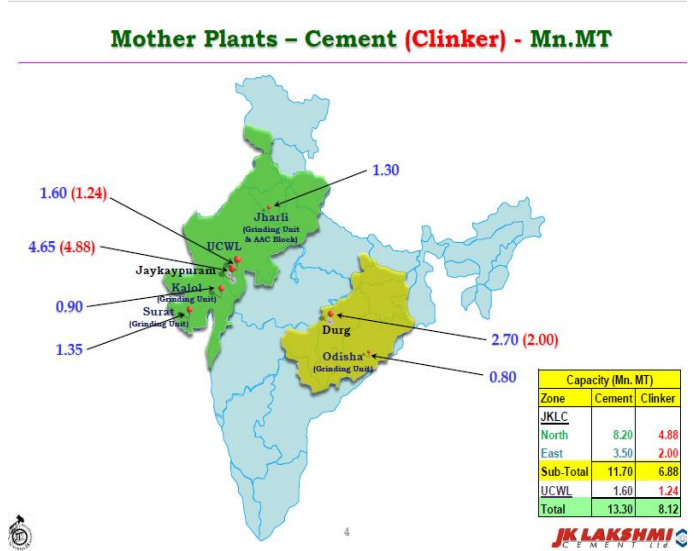
Financial story in charts

Exhibit 3: Clinker and cement capacity

State	Region	Capacity			
		FY21	FY22	FY24E	
Clinker capacity (Standalone)		6.9	6.9	6.9	
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	
Total cement capacity [A]		11.7	11.7	11.7	
Rajasthan (Subsidiary)					
Clinker capacity		1.2	1.5	3.0	
Cement Capacity [B]		West	1.6	2.2	4.7
Total Capacity [A+B]		13.3	13.9	16.4	

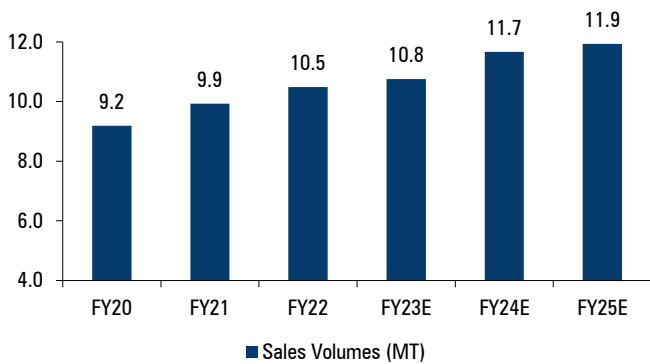
Source: Company, ICICI Direct Research

Exhibit 4: Location wise cement capacity



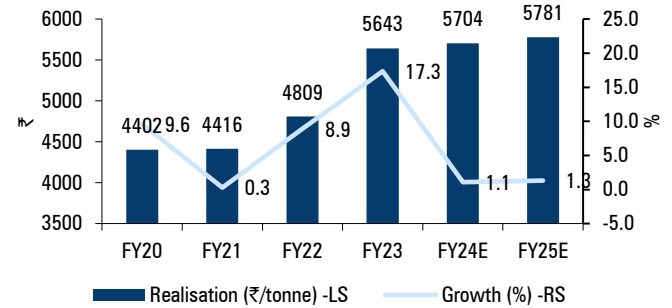
Source: Company, ICICI Direct Research

Exhibit 5: Volumes to grow at 5% CAGR over FY23-25E



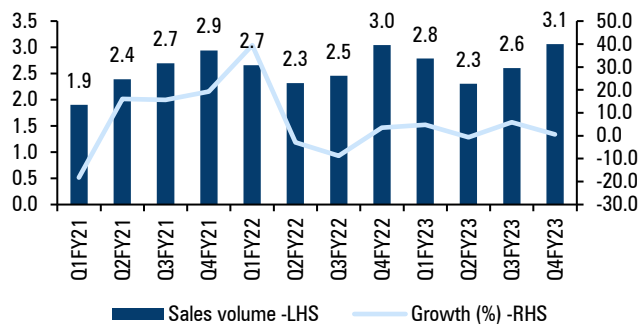
Source: Company, ICICI Direct Research

Exhibit 6: Realisations expected to stabilise at current levels



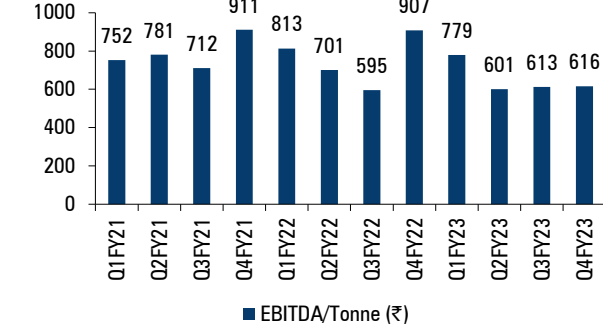
Source: Company, ICICI Direct Research

Exhibit 7: Quarterly volume trend



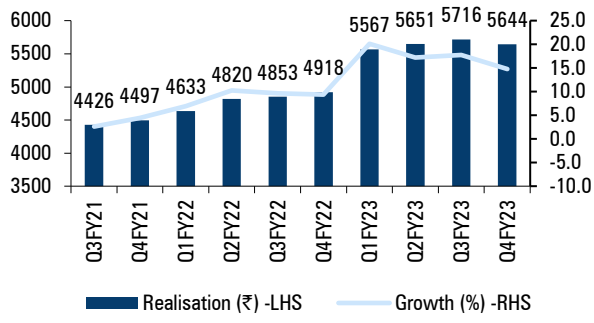
Source: Company, ICICI Direct Research

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



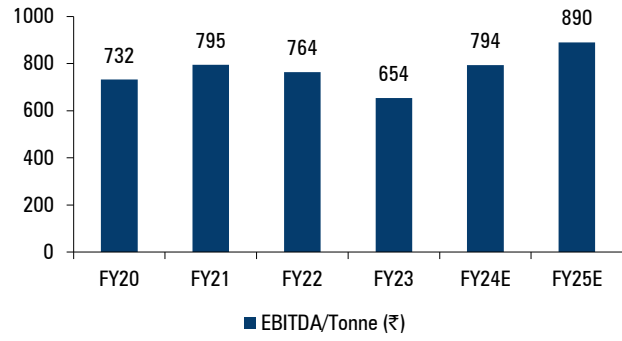
Source: Company, ICICI Direct Research

Exhibit 9: Realisations up 15% YoY



Source: Company, ICICI Direct Research

Exhibit 10: EBITDA/t trend



Source: Company, ICICI Direct Research

Financial Summary (Standalone)

Exhibit 11: Profit & Loss Account

(Year-end March)	FY21	FY22	FY23E	FY24E	FY25E
Operating Income	4,384.7	5,040.8	6,071.1	6,657.4	6,898.6
Growth (%)	8.4	15.0	20.4	9.7	3.6
Raw material	1083.9	1238.3	1582.0	1736.4	1909.4
Power & Fuel	779.8	1065.6	1543.9	1670.6	1551.4
Employees	327.0	326.4	349.1	399.3	408.3
Freight	883.2	1042.8	1208.6	1166.0	1191.6
Others	521.2	566.3	683.4	758.6	775.7
Total Expenses	3,595.0	4,239.5	5,367.1	5,730.9	5,836.5
EBITDA	789.7	801.3	704.0	926.5	1,062.1
Growth (%)	17.5	1.5	-12.1	31.6	14.6
Depreciation	194.2	190.5	193.5	210.0	225.0
Interest	142.5	96.3	91.5	85.3	62.2
Other Income	74.6	67.3	62.2	52.0	52.0
Exceptional items	30.9	23.4	0.0	0.0	0.0
PBT	496.7	558.3	481.2	683.2	827.0
Total Tax	132.8	132.1	150.7	237.8	287.8
PAT	363.9	426.3	330.5	445.5	539.2
Adjusted PAT	394.9	449.7	330.5	445.5	539.2
Growth (%)	48.8	13.9	-26.5	34.8	21.0
Adjusted EPS (₹)	33.5	38.2	28.1	37.8	45.8

Source: Company, ICICI Direct Research

Exhibit 13: Balance Sheet summary

(Year-end March)	FY21	FY22	FY23E	FY24E	FY25E
Liabilities					
Equity Capital	58.9	58.9	58.9	58.9	58.9
Reserve and Surplus	2,020.1	2,393.5	2,664.9	3,066.2	3,534.8
Total Shareholders func	2,078.9	2,452.4	2,723.7	3,125.1	3,593.6
Total Debt	1,124.7	962.9	811.2	704.8	554.8
Deferred Tax Liability	64.1	94.3	159.6	143.6	143.6
Other non-current liabilit	433.2	368.9	415.0	419.2	423.4
Total Liabilities	3,701.0	3,878.4	4,109.6	4,392.7	4,715.4
Assets					
Gross Block	3,707.6	3,952.6	4,128.4	4,348.4	4,528.4
Less: Acc Depreciation	1,048.6	1,233.4	1,426.9	1,636.9	1,861.9
Net Block	2,659.0	2,719.2	2,701.5	2,711.5	2,666.5
Capital WIP	227.5	112.1	64.9	70.0	70.0
Total Fixed Assets	2,886.5	2,831.3	2,766.4	2,781.5	2,736.5
Investments	751.1	938.5	924.8	975.8	1,332.0
Inventory	315.5	491.2	700.4	766.1	793.8
Debtors	53.7	34.5	60.5	66.4	68.8
Loans and Advances	293.1	200.3	419.0	433.2	448.7
Others	2.5	4.4	5.3	5.3	5.3
Cash	359.1	338.8	334.7	544.4	560.9
Total Current Assets	1,023.9	1,069.2	1,520.0	1,815.3	1,877.5
Creditors	379.2	298.3	512.0	561.4	581.7
Provisions & OCL	581.2	662.2	589.6	618.5	648.8
Total Current Liabilities	960.4	960.6	1,101.6	1,179.9	1,230.5
Net Current Assets	63.4	108.6	418.4	635.4	647.0
Application of Funds	3,701.0	3,878.4	4,109.6	4,392.7	4,715.4

Source: Company, ICICI Direct Research

Exhibit 12: Cash flow statement

(Year-end March)	FY21	FY22	FY23E	FY24E	FY25E
Profit after Tax	363.9	426.3	330.5	445.5	539.2
Add: Depreciation	194.2	190.5	193.5	210.0	225.0
(Inc)/dec in Current Assets	116.4	-63.7	-454.0	-85.7	-45.7
Inc/(dec) in CL and Prov.	-277.2	0.1	252.4	78.3	50.6
CF from operations	397.3	553.2	322.5	648.1	769.1
(Inc)/dec in Investments	33.7	-187.4	13.7	-51.0	-356.1
(Inc)/dec in Fixed Assets	-128.1	-137.2	-129.5	-225.1	-180.0
Others	0.0	0.0	0.0	0.0	0.0
CF from investing	-94.4	-324.6	-115.9	-276.1	-536.1
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	-58.3	-161.8	-151.7	-106.4	-150.0
Dividend paid & Others	83.0	-87.0	-59.1	-55.9	-66.4
CF from financing	24.8	-248.8	-210.8	-162.4	-216.4
Net Cash flow	327.7	-20.3	-4.1	209.6	16.5
Opening Cash	31.4	359.1	338.8	334.7	544.4
Closing Cash	359.1	338.8	334.7	544.4	560.9

Source: Company, ICICI Direct Research

Exhibit 14: Ratio sheet

(Year-end March)	FY21	FY22	FY23E	FY24E	FY25E
Per share data (₹)					
Adjusted EPS	30.9	36.2	28.1	37.8	45.8
Cash EPS	47.4	52.4	44.5	55.7	64.9
BV	176.6	208.4	208.4	239.0	277.6
DPS	3.8	5.0	3.8	6.0	6.0
Cash Per Share	30.5	28.6	17.2	37.8	92.0
Operating Ratios (%)					
EBITDA Margin	18.0	15.9	11.6	13.9	15.4
PAT Margin	8.3	8.5	5.4	6.7	7.8
Inventory days	26.3	35.6	42.1	42.0	42.0
Debtor days	4.5	2.5	3.6	3.6	3.6
Creditor days	31.6	21.6	30.8	30.8	30.8
Return Ratios (%)					
RoE	19.0	18.3	12.1	14.3	15.0
RoCE	18.1	17.5	13.9	17.5	18.9
RoIC	21.7	21.2	16.0	22.3	24.2
Valuation Ratios (x)					
P/E	22.8	19.5	25.1	18.6	15.4
EV / EBITDA	11.0	10.5	11.7	8.5	7.2
EV / Net Sales	2.0	1.7	1.4	1.2	1.1
Market Cap / Sales	1.9	1.6	1.4	1.2	1.2
Price to Book Value	4.8	4.0	3.4	3.0	2.7
Solvency Ratios					
Debt/EBITDA	1.4	1.2	1.2	0.8	0.5
Debt / Equity	0.5	0.4	0.3	0.2	0.2
Current Ratio	0.7	0.8	1.1	1.1	1.1
Quick Ratio	0.4	0.2	0.4	0.4	0.4

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: < -15%



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