

RETAIL EQUITY RESEARCH

JK Lakshmi Cement Ltd

Cement

BSE CODE: 500380

NSE CODE: JKLAKSHMI

Bloomberg CODE: JKLC:IN

SENSEX: 34,195

7th February, 2018

Accumulate

Rating as per Midcap

12 Months investment period

CMP Rs. 402 TARGET Rs. 447 RETURN 11% ↑

Strong revenue growth, but fuel cost surge impact margins

JK Lakshmi Cement (JKLC) is part of JK group mainly focused in North, West and Eastern regions of India with a consolidated capacity of 12.5MT (FY17).

- JKLC reported a strong revenue growth of 24.8% for Q3FY18 aided by healthy growth in volumes at 15% YoY and 8% YoY growth in realisation.
- EBITDA grew by 14%YoY, however EBITDA margin declined by 100bps YoY to 11.3% due to steep increase in fuel and freight cost.
- JKLC commissioned 7.5MW WHR in Q3FY18 and is commissioning 20MW thermal by 3QFY19, expect a cost saving of ~Rs200/ton in its East plant.
- We raised our FY18 revenue estimates by ~3% but reduced FY18/19 EBITDA margins by 140bps/190bps to factor in sharp increase in fuel cost.
- We value JKLC at EV/EBITDA of 12x on FY19E for standalone and 10x for UCWL subsidiary to arrive at a Target Price of Rs447.

Strong revenue growth aided by healthy volume and realisation

JKLC reported a strong revenue growth of 25% YoY led by both volume (15%YoY) and realisation (8%YoY) growth. The change in billing method from ex-factory to FoR basis post GST supported realisation while volume growth was supported by ramp up of recently commissioned capacities. The cement price cap set by the state government in Chhattisgarh (60% of total sales in East) was removed and will support realisation in East in the coming quarters. Management expects the demand will be good in the coming two quarters (pre-monsoon). We expect further improvement in realisation when the demand pick up supported by various GoI initiatives for housing & infra and no additional significant capacity additions in the region. We factor revenue growth of 15% CAGR over FY17-19E

Surge in fuel cost impact margins...

JKLC reported an EBITDA growth of 14% YoY in Q3FY18. However, EBITDA margin was impacted by 100bps due to sharp increase in pet coke prices and freight cost. The fuel cost got further affected by the recent SC ban on pet coke use in Rajasthan, Haryana and Uttar Pradesh from November 2017 (SC later lifted the ban in December) in a bid to rein in high levels of pollution. The cost of coal is ~20% higher than cost of pet coke. Power & Fuel cost per Ton had increased by 38% YoY to Rs1,016. The average pet coke price was at ~Rs7500/ton during Q3FY18 Vs ~Rs6,500/ton in Q2FY18 and is currently at ~Rs8,000/ton which will have an impact on margins in the coming quarters also. The freight cost was impacted by increase in diesel prices and partially by change in billing from ex-factory to FoR basis post GST. We downgrade our margin expectation from 13.7%/15.7% to 12.3%/13.8% for FY18E/FY19E to factor in increase in fuel cost.

Focus on maintaining cost efficiency.....

JKLC has completed 7.5MW WHR (Waste Heat recovery) during the quarter and is commissioning 20MW Thermal power plant by 3QFY19E at its east plant. These initiatives will give a cost saving of ~Rs200 per ton in East plant as per management. The ramp up in recently commissioned plants coupled with savings in logistics on account of GST implementation will improve freight cost.

Valuations

We expect demand to pick up in the coming quarters (pre-monsoon) which coupled with the ramp up in recently commissioned capacities bodes well for JKLC. The margins will have an impact due to recent surge in fuel cost. We value JKLC at EV/EBITDA of 12x on FY19E for standalone and 10x for UCWL and arrive at a target price of Rs447 with Accumulate rating.

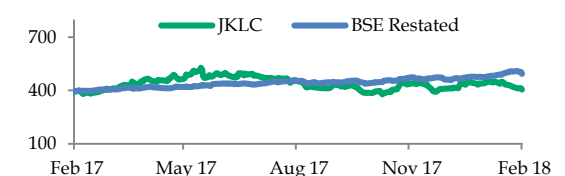
Company Data

Market Cap (cr)	Rs.4,730
Enterprise Value (cr)	Rs.6,236
Outstanding Shares (cr)	11.8
Free Float	54%
Dividend Yield	0.18%
52 week high	Rs.535
52 week low	Rs.375
6m average volume (cr)	0.02
Beta	0.87
Face value	Rs.5.0

Shareholding (%)	Q1FY18	Q2FY18	Q3FY18
Promoters	45.94	45.94	45.94
FII's	10.34	9.77	8.72
MFs/Insti	22.29	18.99	19.79
Public	16.47	16.77	16.93
Others	4.96	8.53	8.62
Total	100.00	100.00	100.00

Price Performance	3 month	6 month	1 Year
Absolute Return	-7.5%	-9.8%	3.4%
Absolute Sensex	-0.4%	3.8%	18.9%
Relative Return*	-7.2%	-13.6%	-15.5%

*over or under performance to benchmark index



Standalone (Rs. cr)	FY17A	FY18E	FY19E
Sales	2,910	3,497	3,834
Growth (%)	11.1	20.2	9.6
EBITDA	365	429	531
Margin (%)	12.6	12.3	13.8
PAT Adj	81.1	81.2	160.3
Growth (%)	1,192.0	0.03	97.5
Adj.EPS	6.9	6.9	13.6
Growth (%)	1,192.0	0.03	97.5
P/E	58.3	58.3	29.5
P/B	3.4	3.3	3.0
EV/EBITDA	16.7	14.4	11.1
RoE (%)	6.0	5.8	10.7
D/E	1.6	1.6	1.3

Vincent Andrews
Analyst

Quarterly Financials (Standalone)

Profit & Loss Account

(Rs cr)	Q3FY18	Q3FY17	YoY Growth (%)	Q2FY18	QoQ Growth (%)
Sales	837.4	670.9	24.8%	776.7	7.8%
EBITDA	94.3	82.7	14.1%	95.4	-1.2%
Margin%	11.3%	12.3%	(100bps)	12.3%	(100bps)
Depreciation	44.8	44.3	1.1%	44.7	0.3%
EBIT	49.5	38.3	29.2%	50.8	-2.4%
Interest	51.4	48.6	5.8%	48.9	5.2%
Other Income	14.6	15.2	-3.8%	16.9	-13.6%
Exceptional Items	0.0	0.0	0.0%	0.0	0.0%
PBT	12.7	4.9	158.5%	18.8	-32.3%
Tax	4.1	-2.7	-254.1%	5.6	-25.9%
Reported PAT	8.6	7.6	13.0%	13.2	-35.1%
Adjustment	-0.2	0.1		-0.2	0.0%
Adj PAT	8.4	7.7	9.1%	13.0	-35.6%
No. of shares (cr)	11.8	11.8	0.0%	11.8	0.0%
EPS (Rs)	0.7	0.7	9.1%	1.1	-35.6%

Per-tonne Analysis

(Rs cr)	Q3FY18	Q3FY17	YoY Growth (%)	Q2FY18	QoQ Growth (%)
Overall Cement Volumes (MnT)	2.11	1.83	15.4%	1.89	11.6%
Raw Materials	881	837	5.3%	873	0.9%
Employee expenses	261	296	-11.9%	318	-18.0%
Power & Fuel	972	826	17.6%	950	2.3%
Freight	1025	928	10.5%	1082	-5.3%
Other expenses	385	331	16.3%	381	1.0%
Total expenses	3,523	3,218	9.5%	3,604	-2.2%
Realisation incl.RMC	3,971	3,670	8.2%	4,109	-3.4%
EBITDA	447	452	-1.1%	505	-11.4%

Change in estimates

Year / Rs cr	Old estimates		New estimates		Change %	
	FY18E	FY19E	FY18E	FY19E	FY18E	FY19E
Revenue	3,409	3,811	3,497	3,834	2.6%	0.61%
EBITDA	467	598	429	531	-8.1%	-11.2%
Margins (%)	13.7	15.7	12.3	13.8	(140bps)	(190bps)
PAT	129.4	214	81.2	160.3	-37.3%	-25.1%
EPS	11.0	18.2	6.9	13.6	-37.3%	-25.2%

Standalone Financials

Profit & Loss Account

Y.E March (Rscr)	FY15A	FY16A	FY17A	FY18E	FY19E
Sales	2,307	2,620	2,910	3,497	3,834
% change	12.2	13.6	11.1	20.2	9.6
EBITDA	349	270	365	429	531
% change	15.7	(22.7)	35.3	17.5	23.7
Depreciation	110.7	161.9	172.4	175.3	181.8
EBIT	237.6	107.3	193.0	253.9	349.2
Interest	90.7	192.3	188.7	200.3	196.7
Other Income	28.2	60.3	69.8	61.4	76.5
PBT	111.8	(35.5)	73.3	115.0	229.0
% change	(3.1)	(131.8)	(306.6)	56.7	99.2
Tax	16.2	(41.8)	(7.8)	33.8	68.7
Tax Rate (%)	14.5%	117.7%	-10.6%	29.4%	30.0%
Reported PAT	95.6	6.3	81.1	81.2	160.3
Adj.*	-	-	-	-	-
Adj. PAT	95.6	6.3	81.1	81.2	160.3
% change	2.8	(93.4)	1,192.0	0.03	97.5
No. of shares	11.8	11.8	11.8	11.8	11.8
Adj EPS (Rs)	8.1	0.5	6.9	6.9	13.6
% change	2.8	(93.4)	1,192.0	0.0	97.5
DPS (Rs)	2.4	0.3	0.9	2.4	2.4

Balance Sheet

Y.E March (Rscr)	FY15A	FY16A	FY17A	FY18E	FY19E
Cash	15	12	9	88	23
Accounts Receivable	70	96	90	129	121
Inventories	223	241	278	308	322
Other Cur. Assets	464	426	367	417	436
Investments	423	401	809	700	900
Gross Fixed Assets	4,088	4,449	4,664	4,814	5,014
Net Fixed Assets	2,581	2,782	2,825	2,799	2,818
CWIP	361	283	205	250	100
Intangible Assets	2	1	2	2	2
Def. Tax (Net)	(128)	(87)	-	-	-
Other Assets	-	-	-	-	-
Total Assets	4,012	4,155	4,583	4,693	4,720
Current Liabilities	898	948	1,061	1,070	1,102
Provisions	47	21	30	38	42
Debt Funds	1,670	1,694	1,966	2,026	1,896
Other Liabilities	66	159	144	124	114
Equity Capital	59	59	59	59	59
Reserves & Surplus	1,272	1,275	1,323	1,376	1,508
Shareholder's Fund	1,331	1,333	1,382	1,435	1,566
Total Liabilities	4,012	4,155	4,583	4,693	4,720
BVPS (Rs)	113	113	117	122	133

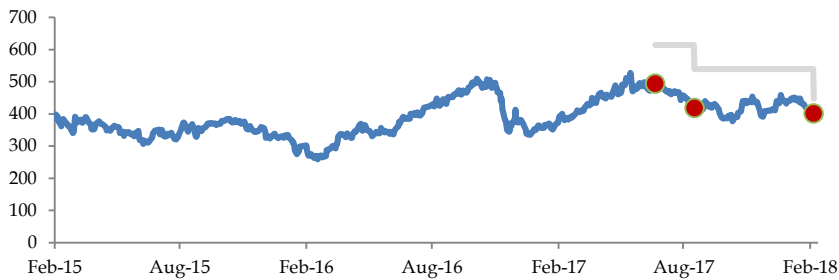
Cash flow

Y.E March (Rscr)	FY15A	FY16A	FY17A	FY18E	FY19E
Net inc. + Deprn.	208	169	254	256	342
Non-cash adj.	-22	-51	-55	0	0
Other adjustments	80	145	179	200	197
Changes in W.C	86.7	83.9	(12.7)	(103.7)	11.3
C.F.O	352	347	363	353	550
Capital exp.	(456)	(200)	(125)	(195)	(50)
Change in inv.	47	71	(293)	109	(200)
Other invest.CF	3	3	2	-	-
C.F - investing	(406)	(125)	(416)	(86)	(250)
Issue of equity	-	-	-	-	-
Issue/repay debt	61	(197)	54	(160)	(337)
Dividends paid	(27)	(28)	(4)	(28)	(28)
Other finance.CF	-	-	-	-	-
C.F - Financing	34	(225)	50	(189)	(365)
Chg. in cash	(21)	(4)	(3)	79	(65)
Closing cash	15	12	9	88	23

Ratios

Y.E March (Rscr)	FY15A	FY16A	FY17A	FY18E	FY19E
Profitab. & Return					
EBITDA margin (%)	15.1	10.3	12.6	12.3	13.8
EBIT margin (%)	10.3	4.1	6.6	7.3	9.1
Net profit mgn.(%)	4.1	0.2	2.8	2.3	4.2
ROE (%)	7.3	0.5	6.0	5.8	10.7
ROCE (%)	4.9	6.6	6.5	8.3	10.3
W.C & Liquidity					
Receivables (days)	10.0	11.6	11.7	11.4	11.9
Inventory (days)	101.7	122.3	124.1	133.0	129.3
Payables (days)	341.5	366.9	364.1	378.2	363.5
Current ratio (x)	0.8	0.8	0.7	0.9	0.8
Quick ratio (x)	0.1	0.1	0.1	0.1	0.1
Turnover & Levq.					
Gross asset T.O (x)	0.7	0.6	0.6	0.7	0.8
Total asset T.O (x)	0.6	0.6	0.7	0.8	0.8
Int. covge. ratio (x)	2.6	0.6	1.0	1.3	1.8
Adj. debt/equity (x)	1.4	1.4	1.6	1.6	1.3
Valuation ratios					
EV/Sales (x)	2.7	2.4	2.1	1.8	1.5
EV/EBITDA (x)	17.7	23.1	16.7	14.4	11.1
P/E (x)	49.5	753.2	58.3	58.3	29.5
P/BV (x)	3.6	3.5	3.4	3.3	3.0

Recommendation Summary (last 3 years)



Source: Bloomberg, Geojit Research

Dates	Rating	Target
21-June-2017*	Buy	614
17-Aug-2017	Buy	540
07-Feb-2018	Accumulate	447

*Initiating Coverage

Investment Rating Criteria

Large Cap Stocks;

Buy	-	Upside is above 10%.
Hold	-	Upside is between 0% - 10%.
Reduce	-	Downside is more than 0%.

Mid Cap and Small Cap;

Buy	-	Upside is above 15%.
Accumulate	-	Upside is between 10% - 15%.
Hold	-	Upside is between 0% - 10%.
Reduce/Sell	-	Downside is more than 0%.

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

The recommendations are based on 12 month horizon, unless otherwise specified. The investment ratings are on absolute positive/negative return basis. It is possible that due to volatile price fluctuation in the near to medium term, there could be a temporary mismatch to rating. For reasons of valuations/return/lack of clarity/event we may revisit rating at appropriate time. Please note that the stock always carries the risk of being upgraded to BUY or downgraded to a HOLD, REDUCE or SELL.

General Disclosures and Disclaimers

CERTIFICATION

I, Vincent K Andrews, author of this Report, hereby certify that all the views expressed in this research report reflect my personal views about any or all of the subject issuer or securities. This report has been prepared by the Research Team of Geojit Financial Services Limited, hereinafter referred to as Geojit.

COMPANY OVERVIEW

Geojit Financial Services Limited (hereinafter Geojit), a publically listed company, is engaged in services of retail broking, depository services, portfolio management and marketing investment products including mutual funds, insurance and properties. Geojit is a SEBI registered Research Entity and as such prepares and shares research data and reports periodically with clients, investors, stake holders and general public in compliance with Securities and Exchange Board of India Act, 1992, Securities And Exchange Board Of India (Research Analysts) Regulations, 2014 and/or any other applicable directives, instructions or guidelines issued by the Regulators from time to time.

DISTRIBUTION OF REPORTS

This document is not for public distribution and has been furnished to you solely for your information and must not be reproduced or redistributed to any other person. Geojit will not treat the recipients of this report as clients by virtue of their receiving this report.

GENERAL REPRESENTATION

The research reports do not constitute an offer or solicitation for the purchase or sale of any financial instruments, inducements, promise, guarantee, warranty, or as an official confirmation of any transaction or contractual obligations of any kind. This report is provided for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. The information contained herein is from publicly available data or other sources believed to be reliable, but we do not represent that it is accurate or complete and it should not be relied on as such. We have also reviewed the research report for any untrue statements of material facts or any false or misleading information. While we endeavor to update on a reasonable basis the information discussed in this material, there may be regulatory, compliance, or other reasons that prevent us from doing so.

RISK DISCLOSURE

Geojit and/or its Affiliates and its officers, directors and employees including the analyst/authors shall not be in any way be responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. Investors may lose his/her entire investment under certain market conditions so before acting on any advice or recommendation in these material, investors should consider whether it is suitable for their particular circumstances and, if necessary, seek professional advice. This report does not take into account the specific investment objectives, financial situation/circumstances and the particular needs of any specific person who may receive this document. The user assumes the entire risk of any use made of this information. Each recipient of this report should make such investigation as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this report (including the merits and risks involved). The price, volume and income of the investments referred to in this report may fluctuate and investors may realize losses that may exceed their original capital.

FUNDAMENTAL DISCLAIMER

We have prepared this report based on information believed to be reliable. The recommendations herein are based on 12 month horizon, unless otherwise specified. The investment ratings are on absolute positive/negative return basis. It is possible that due to volatile price fluctuation in the near to medium term, there could be a temporary mismatch to rating. For reasons of valuations/return/lack of clarity/event we may revisit rating at appropriate time. The stocks always carry the risk of being upgraded to buy or downgraded to a hold, reduce or sell. The opinions expressed are subject to change but we have no obligation to tell our clients when our opinions or recommendations change. This report is non-inclusive and does not consider all the information that the recipients may consider material to investments. This report is issued by Geojit without any liability/undertaking/commitment on the part of itself or any of its entities. We may have issued or may issue on the companies covered herein, reports, recommendations or information which is contrary to those contained in this report.

The projections and forecasts described in this report should be evaluated keeping in mind the fact that these are based on estimates and assumptions and will vary from actual results over a period of time. The actual performance of the companies represented in the report may vary from those projected. These are not scientifically proven to guarantee certain intended results and hence, are not published as a warranty and do not carry any evidentiary value whatsoever. These are not to be relied on in or as contractual, legal or tax advice. Prospective investors and others are cautioned that any forward-looking statements are not predictions and may be subject to change without notice.

JURISDICTION

The securities described herein may not be eligible for sale in all jurisdictions or to all categories of investors. The countries in which the companies mentioned in this report are organized may have restrictions on investments, voting rights or dealings in securities by nationals of other countries. Distributing/taking/sending/dispatching/transmitting this document in certain foreign jurisdictions may be restricted by law, and persons into whose possession this document comes should inform themselves about, and observe any such restrictions. Failure to comply with this restriction may constitute a violation of any foreign jurisdiction laws. Foreign currencies denominated securities are subject to fluctuations in exchange rates that could have an adverse effect on the value or price of or income derived from the investment. Investors in securities such as ADRs, the value of which are influenced by foreign currencies effectively assume currency risk.

REGULATORY DISCLOSURES:

Geojit's Associates consists of privately held companies such as Geojit Technologies Private Limited (GTPL- Software Solutions provider), Geojit Credits Private Limited (GCPL- NBFC Services provider), Geojit Investment Services Limited (GISL- Corporate Agent for Insurance products), Geojit Financial Management Services Private Limited (GFMSL) & Geojit Financial Distribution Private Limited (GFDPL), (Distributors of Insurance and MF Units). In the context of the SEBI Regulations on Research Analysts (2014), Geojit affirms that we are a SEBI registered Research Entity and in the course of our business as a stock market intermediary, we issue research reports / research analysis etc that are prepared by our Research Analysts. We also affirm and undertake that no disciplinary action has been taken against us or our Analysts in connection with our business activities.

In compliance with the above mentioned SEBI Regulations, the following additional disclosures are also provided which may be considered by the reader before making an investment decision:

1. Disclosures regarding Ownership*:

Geojit confirms that:

- (i) It/its associates have no financial interest or any other material conflict in relation to the subject company (ies) covered herein.
- (ii) It/its associates have no actual beneficial ownership greater than 1% in relation to the subject company (ies) covered herein.

Further, the Analyst confirms that:

- (i) he, his associates and his relatives have no financial interest in the subject company (ies) covered herein, and they have no other material conflict in the subject company.
- (ii) he, his associates and his relatives have no actual/beneficial ownership greater than 1% in the subject company covered

2. Disclosures regarding Compensation:

During the past 12 months, Geojit or its Associates:

- (a) Have not received any compensation from the subject company;
- (b) Have not managed or co-managed public offering of securities for the subject company
- (c) Have not received any compensation for investment banking or merchant banking or brokerage services from the subject company.
- (d) Have not received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company
- (e) Have not received any compensation or other benefits from the subject company or third party in connection with the research report
- (f) The subject company is / was not a client during twelve months preceding the date of distribution of the research report.

3. Disclosure by Geojit regarding the compensation paid to its Research Analyst:

Geojit hereby confirms that no part of the compensation paid to the persons employed by it as Research Analysts is based on any specific brokerage services or transactions pertaining to trading in securities of companies contained in the Research Reports.

4. Disclosure regarding the Research Analyst's connection with the subject company:

It is affirmed that I, Vincent K Andrews, Research Analyst(s) of Geojit have not served as an officer, director or employee of the subject company

5. Disclosure regarding Market Making activity:

Neither Geojit/its Analysts have engaged in market making activities for the subject company.

Please ensure that you have read the "Risk Disclosure Documents for Capital Market and Derivatives Segments" as prescribed by the Securities and Exchange Board of India before investing.

Geojit Financial Services Ltd. (formerly known as Geojit BNP Paribas Financial Services Ltd.), Registered Office: 34/659-P, Civil Line Road, Padivattom, Kochi-682024, Kerala, India. Phone: +91 484-2901000, Fax: +91 484-2979695, Website: geojit.com. For investor queries: customercare@geojit.com, For grievances: grievances@geojit.com, For compliance officer: compliance@geojit.com.

Corporate Identity Number: L67120KL1994PLC008403, SEBI Regn.Nos.: NSE: INB/INF/INE231337230 I BSE: INB011337236 & INF011337237 | MSEI: INE261337230, INB261337233 & INF261337233, Research Entity SEBI Reg No: INH200000345, Investment Adviser SEBI Reg No: INA200002817, Portfolio Manager: INP000003203, NSDL: IN-DP-NSDL-24-97, CDSL: IN-DP-CDSL-648-2012, ARN Regn.Nos:0098, IRDA Corporate Agent (Composite) No.: CA0226. Research Entity SEBI Registration Number: INH200000345