

May 21, 2020

## Q4FY20 Result Update

☑ Change in Estimates | ■ Target | ■ Reco

### Change in Estimates

	Current		Previous	
	FY21E	FY22E	FY21E	FY22E
Rating	BUY		BUY	
Target Price	340		340	
Sales (Rs. m)	37,024	43,488	37,444	43,551
% Chng.	(1.1)	(0.1)		
EBITDA (Rs. m)	5,698	6,883	5,663	6,726
% Chng.	0.6	2.3		
EPS (Rs.)	16.2	24.4	17.0	25.0
% Chng.	(4.2)	(2.5)		

### Key Financials - Standalone

Y/e Mar	FY19	FY20	FY21E	FY22E
Sales (Rs. m)	38,823	40,435	37,024	43,488
EBITDA (Rs. m)	4,150	6,994	5,698	6,883
Margin (%)	10.7	17.3	15.4	15.8
PAT (Rs. m)	796	2,749	1,912	2,871
EPS (Rs.)	6.8	23.4	16.2	24.4
Gr. (%)	(5.2)	245.5	(30.5)	50.2
DPS (Rs.)	0.7	2.0	1.0	1.0
Yield (%)	0.4	1.0	0.5	0.5
RoE (%)	5.3	17.0	10.6	14.1
RoCE (%)	7.1	16.9	12.2	15.7
EV/Sales (x)	0.9	0.8	0.9	0.6
EV/EBITDA (x)	8.8	4.5	5.7	4.0
PE (x)	30.5	8.8	12.7	8.5
P/BV (x)	1.6	1.4	1.3	1.1

### Key Data

JKLC.BO | JKLC IN

52-W High / Low	Rs.396 / Rs.180
Sensex / Nifty	30,933 / 9,106
Market Cap	Rs.24bn/ \$ 321m
Shares Outstanding	118m
3M Avg. Daily Value	Rs.92.44m

### Shareholding Pattern (%)

Promoter's	46.21
Foreign	10.61
Domestic Institution	18.96
Public & Others	24.22
Promoter Pledge (Rs bn)	-

### Stock Performance (%)

	1M	6M	12M
Absolute	1.6	(26.7)	(44.1)
Relative	0.7	(3.9)	(29.6)

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## Strong show on cost front

### Quick Pointers:

- Utilisation level improved to 65% in May'20.
- Net debt fell 14% YoY/Rs2.4bn to Rs15.1bn, ↓ 30% from peak level of FY17

**JK Lakshmi Cement (JKLC) posted strong set of Q4FY20 earnings with beat of 11%/16% on PL/Consensus EBITDA estimate on the back of lower than expected costs. Strong profitability in North and Gujarat regions helped company to offset the weakness in Eastern region (25% of total volumes). Tight discipline, bottomed-out demand and limited capacity addition would help sustain margins in North and Gujarat regions. East region would witness flooding of capacity addition over next couple of years. However, we do not expect further deterioration in region's margins given the wafer thin margins (with near nil RoCE) and likely consolidation. Commissioning of CPP, WHR and split grinding unit at Odisha further boosted the cost competitiveness of its East operations.**

**Bottomed out earnings in East operations (25% of volumes) and strong outlook on North and Gujarat region (combined 75%), JKLC's earnings visibility and quality is far better placed compared to earlier years. Supported by attractive valuations (EV/EBITDA of 5.5x/4.0x FY21e/FY22e), we maintain BUY with TP of Rs340, EV/EBITDA of 6.0x FY22e.**

- Lower costs make up for lower realisations:** JKLC's sales volumes fell 16% YoY at 2.5mnt, in line with our estimate. Realisations fell 0.3% QoQ/Rs14 (+8% YoY/Rs315) to Rs4,305 (PLe:Rs4,400). Owing to steeper than expected fall in freight and energy cost, unitary cost fell 1.6% YoY/Rs57 at Rs3,485 (PLe:Rs3,670). EBITDA/t came at Rs820 (PLe:Rs730), up 84% YoY/26% QoQ. EBITDA rose 54% YoY to Rs2.0bn (PLe:Rs1.8bn). Led by higher other income and lower tax rate, PAT grew 1.3x to Rs1.0bn (PLe:Rs754mn).
- Key highlights of earnings con-call:** **1)** Plant in East reached to 90% while capacity in North operating at 60%-65% **2)** Hiked prices in Central/East/North by Rs15/Rs10/Rs10 per bag while prices remain stable in Western region **3)** 2.5mtpa brownfield expansion in North costing Rs12-14bn put on hold **4)** Currently undertaking 12MW Waste Heat Recovery plant/0.5mnt grinding unit at Sirohi plant/Udaipur Cement works (UCWL) at capex of Rs1.6bn/Rs0.5bn **5)** Both the project would commission in Q4FY21e **6)** Standalone/Consolidated capex guidance for FY21e at Rs1.5bn/Rs2.0bn **7)** Would reduce Rs2.5bn-Rs2.7bn annually over next couple of years **8)** Trade sales in East/North at 80%/55% **9)** Pet coke prices fell Rs12.5% YoY to Rs7,000/t in Q4FY20, current prices down by 10% over Q4 average **10)** Clinker sales volumes up 58% YoY/108% QoQ to 0.33mnt due to weak cement demand **11)** Outside clinker sales is limited at 5% of overall volumes (net of traded volumes)

**Exhibit 1: Q4FY20 Result Overview (Rs mn)**

Y/e March	Q4FY20	Q4FY19	YoY gr. (%)	Q3FY20	FY20	FY19	YoY gr. (%)
<b>Net Sales</b>	<b>10,612</b>	<b>11,725</b>	<b>(9.5)</b>	<b>10,050</b>	<b>40,435</b>	<b>38,823</b>	<b>4.2</b>
Raw Material	2,361	2,941	(19.7)	2,253	9,189	9,236	(0.5)
<i>% of Net Sales</i>	<i>22.2</i>	<i>25.1</i>		<i>22.4</i>	<i>22.7</i>	<i>23.8</i>	
Staff Costs	760	680	11.8	788	3,062	2,625	16.7
<i>% of Net Sales</i>	<i>7.2</i>	<i>5.8</i>		<i>7.8</i>	<i>7.6</i>	<i>6.8</i>	
Power & Fuel	2,005	2,563	(21.8)	2,111	8,439	9,198	(8.3)
<i>% of Net Sales</i>	<i>18.9</i>	<i>21.9</i>		<i>21.0</i>	<i>20.9</i>	<i>23.7</i>	
Freight and selling expenses	2,140	2,759	(22.4)	2,062	8,176	9,533	(14.2)
<i>% of Net Sales</i>	<i>20.2</i>	<i>23.5</i>		<i>20.5</i>	<i>20.2</i>	<i>24.6</i>	
Other Expenses	1,326	1,469	(9.7)	1,317	4,576	4,082	12.1
<i>% of Net Sales</i>	<i>12.5</i>	<i>12.5</i>		<i>13.1</i>	<i>11.3</i>	<i>10.5</i>	
Total Expenditure	8,592	10,412	(17.5)	8,531	33,441	34,673	(3.6)
<b>EBITDA</b>	<b>2,020</b>	<b>1,312</b>	<b>53.9</b>	<b>1,519</b>	<b>6,994</b>	<b>4,150</b>	<b>68.5</b>
<i>Margin (%)</i>	<i>19.0</i>	<i>11.2</i>		<i>15.1</i>	<i>17.3</i>	<i>10.7</i>	
Depreciation	510	446	14.2	485	1,884	1,794	5.0
Other income	225	168	33.7	147	499	567	(12.1)
<b>EBIT</b>	<b>1,736</b>	<b>1,034</b>	<b>67.8</b>	<b>1,181</b>	<b>5,609</b>	<b>2,923</b>	<b>91.9</b>
Interest	425	460	(7.8)	428	1,642	1,879	(12.6)
<b>PBT</b>	<b>1,311</b>	<b>574</b>	<b>128.4</b>	<b>754</b>	<b>3,967</b>	<b>1,044</b>	<b>279.9</b>
Extraordinary income/(expense)	-	-		-	(572)	-	
<b>PBT (After EO)</b>	<b>1,311</b>	<b>574</b>	<b>128.4</b>	<b>754</b>	<b>3,395</b>	<b>1,044</b>	<b>225.1</b>
Tax	303	142	114.4	262	1,042	249	319.1
<i>% PBT</i>	<i>23.1</i>	<i>24.7</i>		<i>34.7</i>	<i>30.7</i>	<i>23.8</i>	
<b>Reported PAT</b>	<b>1,008</b>	<b>433</b>	<b>132.9</b>	<b>492</b>	<b>2,352</b>	<b>796</b>	<b>195.7</b>
<b>Adjusted PAT</b>	<b>1,008</b>	<b>433</b>	<b>132.9</b>	<b>492</b>	<b>2,749</b>	<b>796</b>	<b>245.5</b>

Source: Company, PL

**Exhibit 2: Key Operating Metrics**

Y/e March	Q4FY20	Q4FY19	YoY gr. (%)	Q3FY20	FY20	FY19	YoY gr. (%)
Volume (mn te)	2.5	2.9	(16.1)	2.3	9.2	9.7	(5.2)
Net Realisations (Rs/te)	4,305	3,989	7.9	4,319	4,418	4,020	9.9
EBITDA/ te (Rs/te)	820	447	83.5	653	764	430	77.8

Source: Company, PL

## Financials

### Income Statement (Rs m)

Y/e Mar	FY19	FY20	FY21E	FY22E
<b>Net Revenues</b>	<b>38,823</b>	<b>40,435</b>	<b>37,024</b>	<b>43,488</b>
YoY gr. (%)	13.8	4.2	(8.4)	17.5
Cost of Goods Sold	9,687	9,189	9,447	11,086
Gross Profit	29,136	31,246	27,576	32,402
Margin (%)	75.0	77.3	74.5	74.5
Employee Cost	2,599	3,062	3,274	3,667
Other Expenses	3,656	4,576	3,522	4,031
<b>EBITDA</b>	<b>4,150</b>	<b>6,994</b>	<b>5,698</b>	<b>6,883</b>
YoY gr. (%)	0.9	68.5	(18.5)	20.8
Margin (%)	10.7	17.3	15.4	15.8
Depreciation and Amortization	1,794	1,884	1,971	1,984
<b>EBIT</b>	<b>2,356</b>	<b>5,110</b>	<b>3,727</b>	<b>4,899</b>
Margin (%)	6.1	12.6	10.1	11.3
Net Interest	1,874	1,642	1,463	1,303
Other Income	563	499	486	536
<b>Profit Before Tax</b>	<b>1,044</b>	<b>3,395</b>	<b>2,751</b>	<b>4,132</b>
Margin (%)	2.7	8.4	7.4	9.5
Total Tax	249	1,042	839	1,260
Effective tax rate (%)	23.8	30.7	30.5	30.5
<b>Profit after tax</b>	<b>796</b>	<b>2,352</b>	<b>1,912</b>	<b>2,871</b>
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
<b>Adjusted PAT</b>	<b>796</b>	<b>2,749</b>	<b>1,912</b>	<b>2,871</b>
YoY gr. (%)	(5.2)	245.5	(30.5)	50.2
Margin (%)	2.0	6.8	5.2	6.6
Extra Ord. Income / (Exp)	-	(397)	-	-
<b>Reported PAT</b>	<b>796</b>	<b>2,352</b>	<b>1,912</b>	<b>2,871</b>
YoY gr. (%)	(5.2)	195.7	(18.7)	50.2
Margin (%)	2.0	5.8	5.2	6.6
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	796	2,352	1,912	2,871
<b>Equity Shares O/s (m)</b>	<b>118</b>	<b>118</b>	<b>118</b>	<b>118</b>
<b>EPS (Rs)</b>	<b>6.8</b>	<b>23.4</b>	<b>16.2</b>	<b>24.4</b>

Source: Company Data, PL Research

### Balance Sheet Abstract (Rs m)

Y/e Mar	FY19	FY20	FY21E	FY22E
<b>Non-Current Assets</b>				
<b>Gross Block</b>	<b>33,299</b>	<b>36,830</b>	<b>36,619</b>	<b>38,469</b>
Tangibles	33,299	36,830	36,619	38,469
Intangibles	-	-	-	-
<b>Acc: Dep / Amortization</b>	<b>6,909</b>	<b>8,793</b>	<b>10,742</b>	<b>12,727</b>
Tangibles	6,909	8,793	10,742	12,727
Intangibles	-	-	-	-
<b>Net fixed assets</b>	<b>26,390</b>	<b>28,037</b>	<b>25,877</b>	<b>25,743</b>
Tangibles	26,390	28,037	25,877	25,743
Intangibles	-	-	-	-
Capital Work In Progress	4,372	1,519	3,044	1,860
Goodwill	-	-	-	-
Non-Current Investments	4,163	4,282	4,163	4,163
Net Deferred tax assets	220	(205)	(511)	(1,007)
Other Non-Current Assets	23	396	23	23
<b>Current Assets</b>				
Investments	3,624	4,169	3,624	3,624
Inventories	3,117	4,128	3,449	4,051
Trade receivables	1,066	882	1,014	1,191
Cash & Bank Balance	180	314	1,213	1,617
Other Current Assets	1,302	1,623	1,426	1,532
<b>Total Assets</b>	<b>44,554</b>	<b>45,499</b>	<b>43,418</b>	<b>42,894</b>
<b>Equity</b>				
Equity Share Capital	589	589	589	589
Other Equity	14,638	16,538	18,335	21,089
<b>Total Network</b>	<b>15,227</b>	<b>17,127</b>	<b>18,924</b>	<b>21,678</b>
<b>Non-Current Liabilities</b>				
Long Term borrowings	16,129	11,830	13,129	8,629
Provisions	109	114	109	109
Other non current liabilities	1,756	1,813	1,756	1,756
<b>Current Liabilities</b>				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	5,114	4,685	3,652	4,289
Other current liabilities	4,464	7,577	4,192	4,564
<b>Total Equity &amp; Liabilities</b>	<b>44,554</b>	<b>45,499</b>	<b>43,418</b>	<b>42,894</b>

Source: Company Data, PL Research

**Cash Flow (Rs m)**

Y/e Mar	FY19	FY20	FY21E	FY22E
PBT	1,044	3,697	2,751	4,132
Add. Depreciation	1,794	1,884	1,971	1,984
Add. Interest	1,874	1,644	1,463	1,303
Less Financial Other Income	563	499	486	536
Add. Other	(335)	(695)	(275)	(325)
Op. profit before WC changes	4,378	6,530	5,909	7,094
Net Changes-WC	2,698	(359)	(1,204)	337
Direct tax	(181)	(758)	(509)	(764)
<b>Net cash from Op. activities</b>	<b>6,895</b>	<b>5,413</b>	<b>4,197</b>	<b>6,666</b>
Capital expenditures	(1,888)	(865)	(1,370)	(666)
Interest / Dividend Income	-	-	-	-
Others	1,094	(721)	275	325
<b>Net Cash from Inv. activities</b>	<b>(794)</b>	<b>(1,586)</b>	<b>(1,095)</b>	<b>(341)</b>
Issue of share cap. / premium	-	-	-	-
Debt changes	(3,934)	(1,498)	(1,500)	(4,500)
Dividend paid	(111)	(455)	-	(118)
Interest paid	(1,991)	(1,740)	(1,463)	(1,303)
Others	-	-	-	-
<b>Net cash from Fin. activities</b>	<b>(6,036)</b>	<b>(3,693)</b>	<b>(2,963)</b>	<b>(5,921)</b>
<b>Net change in cash</b>	<b>64</b>	<b>134</b>	<b>139</b>	<b>404</b>
Free Cash Flow	5,006	4,547	2,827	6,000

Source: Company Data, PL Research

**Quarterly Financials (Rs m)**

Y/e Mar	Q1FY20	Q2FY20	Q3FY20	Q4FY20
<b>Net Revenue</b>	<b>10,419</b>	<b>9,355</b>	<b>10,050</b>	<b>10,612</b>
YoY gr. (%)	12.8	9.9	7.5	(9.5)
Raw Material Expenses	2,367	2,209	2,253	2,361
Gross Profit	8,052	7,146	7,797	8,251
Margin (%)	77.3	76.4	77.6	77.8
<b>EBITDA</b>	<b>1,968</b>	<b>1,487</b>	<b>1,519</b>	<b>2,020</b>
YoY gr. (%)	109.7	62.2	54.6	53.9
Margin (%)	18.9	15.9	15.1	19.0
Depreciation / Depletion	453	437	485	510
<b>EBIT</b>	<b>1,515</b>	<b>1,050</b>	<b>1,035</b>	<b>1,511</b>
Margin (%)	14.5	11.2	10.3	14.2
Net Interest	399	390	428	425
Other Income	59	68	147	225
<b>Profit before Tax</b>	<b>603</b>	<b>728</b>	<b>754</b>	<b>1,311</b>
Margin (%)	5.8	7.8	7.5	12.4
Total Tax	209	268	262	303
Effective tax rate (%)	34.6	36.9	34.7	23.1
<b>Profit after Tax</b>	<b>394</b>	<b>459</b>	<b>492</b>	<b>1,008</b>
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
<b>Adjusted PAT</b>	<b>768</b>	<b>459</b>	<b>492</b>	<b>1,008</b>
YoY gr. (%)	458.6	487.8	233.4	132.9
Margin (%)	7.4	4.9	4.9	9.5
Extra Ord. Income / (Exp)	(374)	-	-	-
<b>Reported PAT</b>	<b>394</b>	<b>459</b>	<b>492</b>	<b>1,008</b>
YoY gr. (%)	186.5	487.8	233.4	132.9
Margin (%)	3.8	4.9	4.9	9.5
Other Comprehensive Income	-	-	-	-
<b>Total Comprehensive Income</b>	<b>394</b>	<b>459</b>	<b>492</b>	<b>1,008</b>
Avg. Shares O/s (m)	118	118	118	118
<b>EPS (Rs)</b>	<b>6.5</b>	<b>3.9</b>	<b>4.2</b>	<b>8.6</b>

Source: Company Data, PL Research

**Key Financial Metrics**

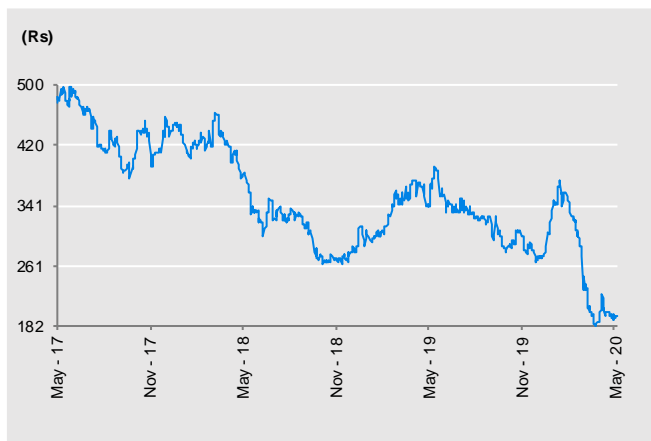
Y/e Mar	FY19	FY20	FY21E	FY22E
<b>Per Share(Rs)</b>				
EPS	6.8	23.4	16.2	24.4
CEPS	22.0	39.4	33.0	41.3
BVPS	129.4	145.5	160.8	184.2
FCF	42.5	38.6	24.0	51.0
DPS	0.7	2.0	1.0	1.0
<b>Return Ratio(%)</b>				
RoCE	7.1	16.9	12.2	15.7
ROIC	6.1	13.8	10.1	13.1
RoE	5.3	17.0	10.6	14.1
<b>Balance Sheet</b>				
Net Debt : Equity (x)	0.8	0.4	0.4	0.2
Net Working Capital (Days)	(9)	3	8	8
<b>Valuation(x)</b>				
PER	30.5	8.8	12.7	8.5
P/B	1.6	1.4	1.3	1.1
P/CEPS	9.4	5.2	6.3	5.0
EV/EBITDA	8.8	4.5	5.7	4.0
EV/Sales	0.9	0.8	0.9	0.6
Dividend Yield (%)	0.4	1.0	0.5	0.5

Source: Company Data, PL Research

**Key Operating Metrics**

Y/e Mar	FY19	FY20	FY21E	FY22E
Volume (mn te)-Cement	10	9	8	9
Cement Realisation (Rs/te)	4,020	4,441	4,481	4,503
EBITDA (Rs/ te)	430	740	690	713
RM cost (Rs/ te)	1,160	1,194	1,225	1,211
Power, Oil & Fuel (Rs/ te)	1,101	1,011	973	970
Freight Charges (Rs/ te)	975	920	938	946

Source: Company Data, PL Research

**Price Chart**
**Recommendation History**


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	09-Apr-20	Hold	16,680	16,064
2	29-Jan-20	Accumulate	425	370
3	03-Jan-20	Accumulate	376	306
4	04-Nov-19	Accumulate	380	308
5	03-Oct-19	Accumulate	380	301
6	07-Aug-19	Accumulate	380	330
7	04-Jul-19	Accumulate	401	333
8	28-May-19	Hold	373	393

**Analyst Coverage Universe**

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	ACC	BUY	1,340	1,137
2	Ambuja Cement	BUY	190	172
3	Coal India	Accumulate	195	149
4	Heidelberg Cement India	Accumulate	175	147
5	Hindalco Industries	BUY	170	118
6	Hindustan Zinc	Hold	200	175
7	J.Kumar Infraprojects	BUY	340	185
8	Jindal Steel & Power	BUY	150	92
9	JK Lakshmi Cement	Hold	16,680	16,064
10	JSW Steel	Reduce	145	177
11	NMDC	Hold	90	80
12	Shree Cement	Hold	16,900	18,733
13	Steel Authority of India	Reduce	25	28
14	Tata Steel	Reduce	242	293
15	The Ramco Cements	Reduce	725	810
16	Ultratech Cement	BUY	4,350	3,546

**PL's Recommendation Nomenclature (Absolute Performance)**

<b>Buy</b>	: > 15%
<b>Accumulate</b>	: 5% to 15%
<b>Hold</b>	: +5% to -5%
<b>Reduce</b>	: -5% to -15%
<b>Sell</b>	: < -15%
<b>Not Rated (NR)</b>	: No specific call on the stock
<b>Under Review (UR)</b>	: Rating likely to change shortly

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