Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Stock Idea

JK Lakshmi Cement Limited

Steadily gaining muscle

Cement	Sharekhan code: JKLAKSHMI	Initiating Coverage

3R MATRIX	+	=	-
Right Sector (RS)	✓		
Right Quality (RQ)	✓		
Right Valuation (RV)	✓		

+ Positive = Neutral - Negative

Reco/View

Reco:	**Buy**
CMP:	**Rs. 279**
Price Target:	**Rs. 372**

Company details

Market cap:	Rs. 3,286 cr
52-week high/low:	Rs. 389/180
NSE volume: (No of shares)	1.7 lakh
BSE code:	500380
NSE code:	JKLAKSHMI
Free float: (No of shares)	6.3 cr

Shareholding (%)

Promoters	46.2
FII	10.6
DII	19.8
Others	23.4

Price chart

Price performance

(%)	1m	3m	6m	12m
Absolute	13.4	37.8	-13.9	-17.3
Relative to Sensex	6.2	17.8	-2.2	-12.6

Sharekhan Research, Bloomberg

Summary

- Initiate coverage on JK Lakshmi Cement (JKL) with a Buy rating and price target of Rs. 372.
- JKL has trebled consolidated capacities over the past decade, limiting leverage, growing earnings at a healthy pace.
- Company will focus to further de-leverage balance sheet; it awaits improvement in macros to further expand capacities.
- Healthy balance sheet, efficient operations, favourable regional operations and attractive valuation make us positive on stock.

JK Lakshmi Cement Limited (JKL), a regional efficient cement player has expanded capacity by 8.6 million tonnes (MT) since FY2012 and almost trebled its consolidated capacity from 4.75 MT to 13.3 MT as of FY2020. Its timely capacity expansion has often helped it outpace the industry demand growth rate since FY2014. Despite this aggressive capacity expansion, the company has been able to lower its standalone gross debt-to-equity ratio to 0.7x (FY2020), which peaked at 1.5x in FY2017. This highlights its efficient capital management. The company's plants, including grinding units are located in six states across the northern, western and eastern regions of India. The company is in the league of larger cost-efficient peers with rising realisations (led by increasing trade and premium product sales) leading to narrowing profitability gap (in terms of EBITDA/tonne). Due to the near-term weakness led by COVID-19, JKL, like its peers has put capacity expansion plans — it was evaluating Rs. 1,200-1,400 crore expansion at either Sirohi or Udaipur — on hold. However, currently it will be just completing the waste-heat recovery system (WHRS) at Sirohi and repay ~Rs. 250 crore of debt per annum in the next two years. We expect on an average Rs. 440 crore per annum operating cash-flow generation over FY2021E-FY2023E. The company is currently operating at ~65% capacity utilisation and expects to ramp-up in Q3FY2021 after the monsoon. We expect JKL's cement volumes to record a 12% CAGR over FY2021E-FY2023E with demand improving led by government-backed infrastructure projects (Rs. 111 lakh crore investments over FY2020-FY2025) and affordable housing segments. JKL is currently trading at an EV/EBITDA of 4.9x its FY2023E earnings and EV/tonne of $36, which is below historical average EV/EBITDA multiple and replacement cost respectively. Hence, we initiate coverage on the stock with a Buy rating, valuing the stock at 6.5x its FY2023E standalone earnings, leading to price target of Rs. 372.

Our Call

Initiate with Buy rating and PT of Rs. 372: The cement industry in general and JKL in particular have been affected by COVID-19-led demand disruptions in the near term. However, JKL, like other cement players, has started improving capacity utilisation. We expect cement demand to start getting better from Q3FY2021 onwards with healthy bounce-back during FY2022. We expect JKL's cement sales volumes to clock a 12% CAGR over FY2021E-FY2023E. JKL is currently trading at an EV/EBITDA of 4.9x its FY2023E earnings and EV/tonne of $36, which is below its historical average EV/EBITDA multiple and replacement cost respectively. Hence, we initiate coverage on the stock with a Buy rating, valuing the stock at 6.5x its FY2023E standalone earnings, leading to price target of Rs. 372.

Key risk

1) Pressure on cement demand and cement prices in the north-west and east India can affect financial performance; and 2) Macroeconomic challenges leading to lower government spending on infrastructure and housing sectors can impact the company's performance.

Valuation (Standalone) Rs cr

Particulars	FY19	FY20	FY21E*	FY22E*	FY23E
Revenue	3,882	4,044	3,425	4,040	4,513
OPM (%)	10.7	16.6	12.7	14.2	14.6
Adjusted PAT	80	265	98	204	276
% y-o-y growth	*-5*	*234*	*-63*	*108*	*35*
Adjusted EPS (Rs.)	6.8	22.6	8.3	17.3	23.4
P/E (x)	41.3	12.4	33.6	16.1	11.9
P/B (x)	2.2	1.9	1.8	1.7	1.6
EV/EBIDTA (x)	9.3	5.4	8.1	5.9	4.9
RoNW (%)	5.3	16.4	5.6	10.8	13.1
RoCE (%)	7.4	12.9	6.9	10.1	11.9

Source: Company; Sharekhan estimates

** We now convert JK Lakshmi Cement into a Stock Idea; it was earlier a 'Viewpoint' under our coverage.*

Executive Summary

3R Research Positioning Summary

- **Right Sector:**
  Low per capita consumption, high entry barriers, healthy pricing discipline, positively co-related to GDP growth.
- **Right Quality:**
  JKL part of renowned business group, pedigree of prudent capital management, among cost-efficient players, deep rural penetration.
- **Right Valuation:**
  Healthy balance sheet, discount to peers, discount to historical average.

Valuation and return potential

- **Trading at ~30% discount historical average:** Stock trades at an EV/EBITDA of 4.9x its FY2023E earnings, which is at a 30% discount to its historical average of 7.1x.
- **Steep discount to replacement cost:** The company is trading at an EV/tonne of $36 on FY2023E which is steep discount to $140 replacement cost.

Catalysts

Long-term triggers
- Strong volume growth over the period FY21E-FY23E led by government-led infra spending and affordable housing.
- Long term demand growth pegged at 1.2x GDP. Low per capita cement consumption vs world average.

Medium Term Triggers
- Expect cement demand to improve from Q3FY2021 onwards in tandem with increasing construction activities.
- Healthy pricing discipline along with benign key costs like power & fuel and freight costs to support OPM.

Key Risks: Weak macro, decline in cement prices, rise in key input costs.

Earnings and Balance sheet highlights

- **Consistent earnings growth:** Revenues and PAT grew at a CAGR of 12% and 11%, over FY2015-20.
- **Key regions:** Catering to cement demand in North, West and East India.
- **Healthy balance sheet and cash flows:** Standalone debt-to-equity ratio stood at 0.7x despite higher capex of Rs. 1,154 crore over FY2015-20; Average operating cash flows of Rs. 550 crore plus during FY2018-FY2020.
- **Healthy return profile:** RoE and RoCE stood at 16.4% and 12.9%, respectively, in FY2020.

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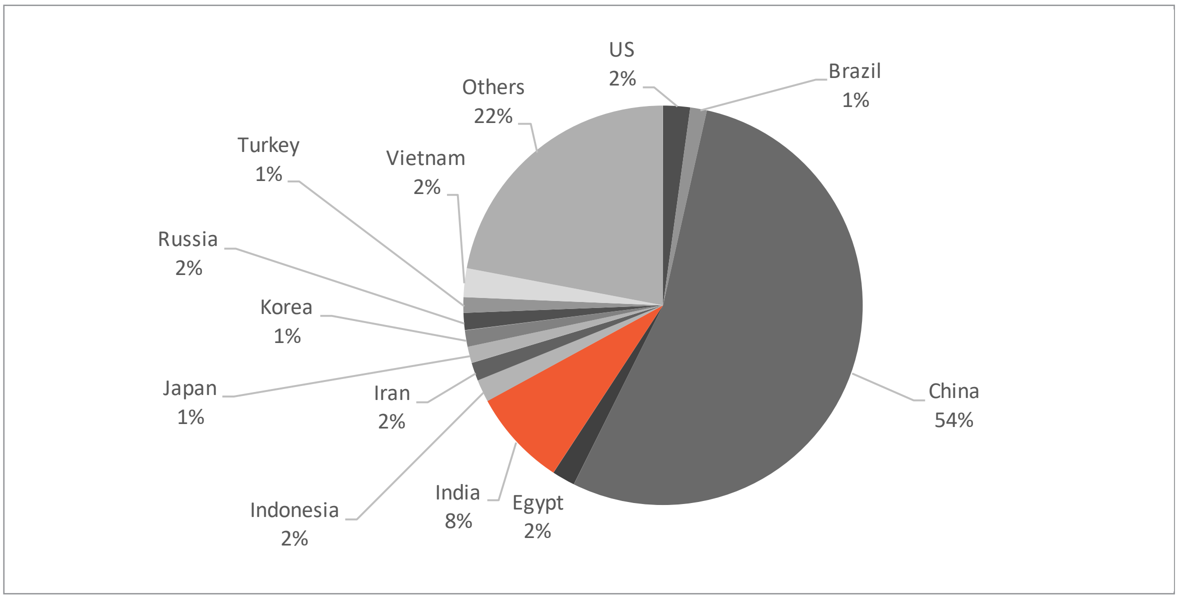
Why we like space – Healthy demand and pricing discipline brightens outlook

Cement industry has seen sustained improvement in demand in the past fifteen years barring a couple of years, while regional cement prices, have been on a rising trajectory over trailing five years. The government's Rs. 111 lakh crore infrastructure investment plan from FY2020 to FY2025 would lead to a healthy demand environment going ahead.

India world's second-largest cement producer

India is second-largest producer of cement in the world after China, accounting for 8% of global installed capacity as of 2019. India's installed cement capacity is estimated at ~500 MTPA after China, which has an installed capacity of ~3,200 MTPA. India's cement Industry has been de-controlled in 1989 and de-licensed in 1991 under the policy of economic liberalisation. Decisions on installation of new plants are taken by the industry based on market demand.

World Production - 2019

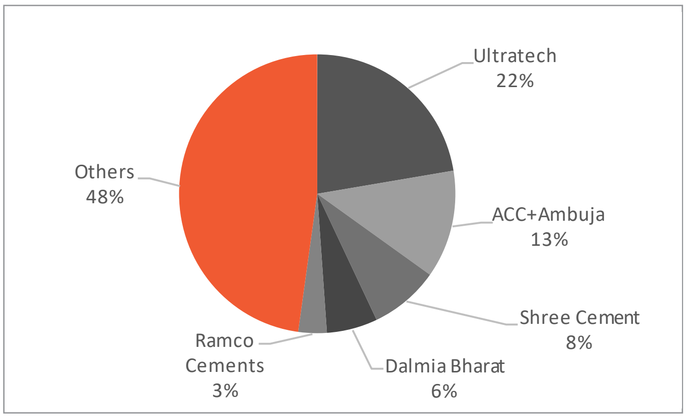


Source: United States Geological Survey (USGS)

Highly fragmented market dominated by few players

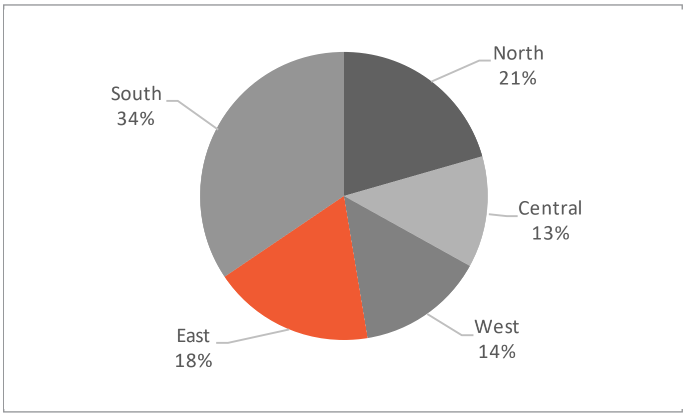
Indian cement industry is highly fragmented with ~250 plants owned by ~75 players. The top five cement players hold ~52% of total installed capacity. Region-wise, South dominates with 34% share followed by North (21%), East (18%), West (14%) and Central (13%).

Top 5 hold lion's share



Source: Industry Data; Sharekhan Research

Regional mix

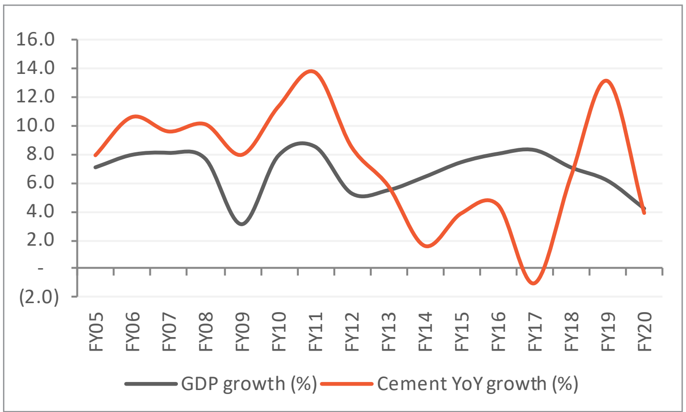


Source: Industry Data; Sharekhan Research

GDP to cement demand growth and low per capita consumption to drive long-term growth

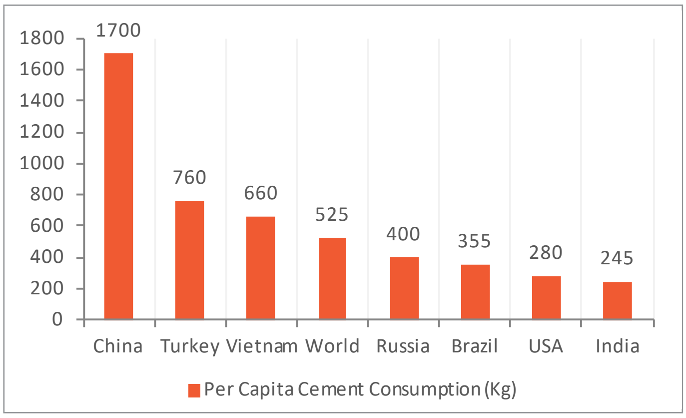
Cement industry has shown a strong positive co-relation with India's GDP growth during FY2005-FY2008 at 1.2x, while it improved to 1.7x during FY2009 to FY2013. Cement industry faced a lull in demand during FY2014-FY2017, wherein it grew at just 0.3x GDP growth. However, since FY2018-FY2020, the industry again reverted to growth rate that was 1.3x GDP. The expected improvement in GDP growth rate from FY2022 is expected to improve cement industry's demand growth. Additionally, per capita consumption of cement in India stood at ~245 kg as of FY2019 is much lower to the world average of ~525kg which leaves ample room for long-term growth for the industry.

Cement demand ~1.2x GDP



Source: Ministry of Statistics & Programme Implementation, Industry, Sharekhan Research

Per capita cement consumption

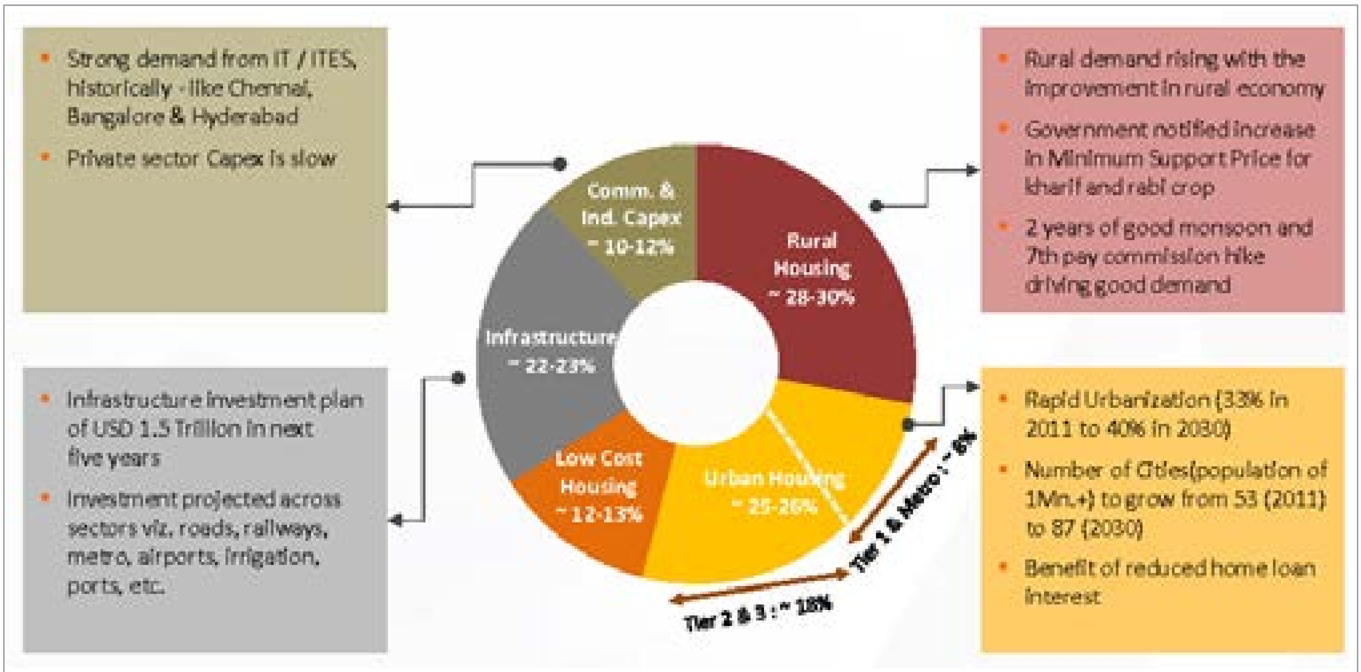


Source: USGS, Sharekhan Research

Key demand growth drivers

Cement industry demand is driven by five segments i.e. Infrastructure, low-cost housing, urban housing, rural housing and commercial and industrial capex. The housing sector (including Low cost, Urban and rural housing) contribute to 65-69% of demand. Rapid urbanisation, rising number of cities, rising rural income,

Segment-wise demand mix

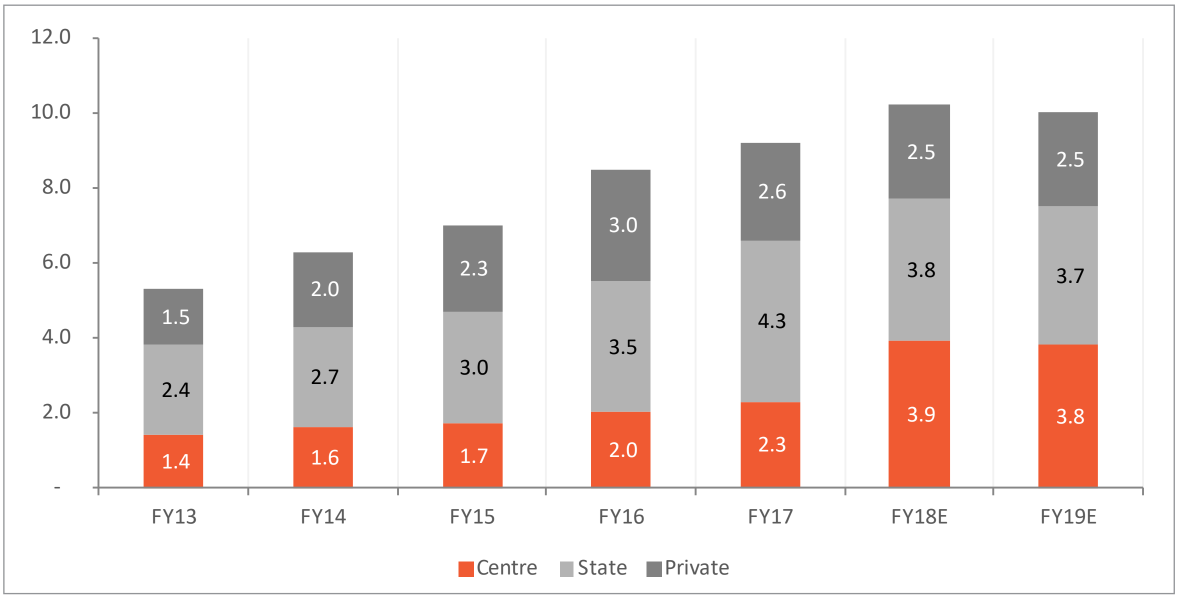


Source: Ultratech Corporate Presentation, Sharekhan Research normal monsoons, pay commission hikes, etc are some of the key drivers of the housing sector in India. Commercial and industrial capex is led by strong demand from IT/ITES along with private capital expenditure. However, private capex have been slow over the trailing three years. Infrastructure investments are driven by central and state government expenditures in sectors like roads, railways, metros, airports, irrigation, ports, etc. The share of government led infrastructure investments have increased over trailing three years compensating for slowdown in private capex.

Infrastructure investments driven by public sector

India's infrastructure investments have been rising with a Rs. 36 lakh crore of investments made during FY2013-FY2017. Investments for FY2018 and FY2019 is estimated at Rs.10.2 lakh crore and Rs. 10 lakh crore, respectively. During FY2018-FY2019, infrastructure investment was predominantly driven by the public sector (i.e. Centre and state governments with a share of ~75%). The private sector's share has declined from an average 30% during FY2013-FY2017 to 25% during FY2018-FY2019E.

India's infrastructure investment trend since FY2013

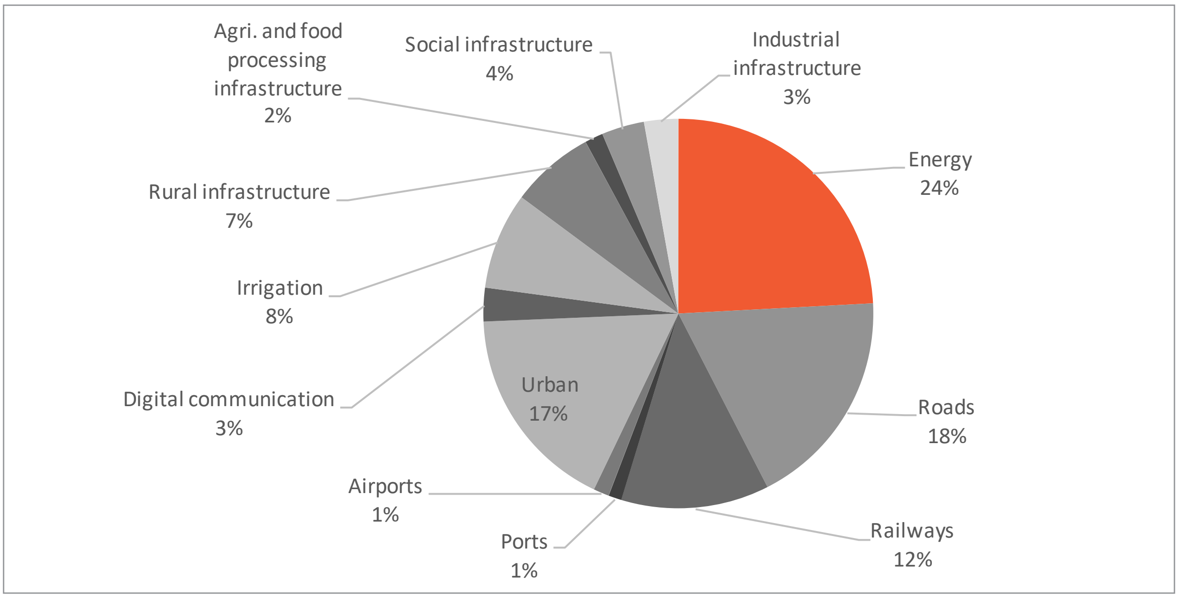


Source: Report of Task Force National Infrastructure Pipeline, Sharekhan Research

Huge infrastructure investments during FY2020-FY2025 augur well for cement demand

The government has envisaged Rs. 111 lakh crore of capital expenditure in the infrastructure sector in India during FY2020 to FY2025. Sectors such as Energy (24%), roads (18%), urban (17%) and railways (12%) amount to ~71% of the projected infrastructure investment. The government's continued thrust on infrastructure investment is expected to improve demand environment for the cement industry. Although cement demand is expected to fall during FY2021 led by COVID-19 led disruption, we expect cement demand to revive from FY2022.

Sector-wise capital expenditure

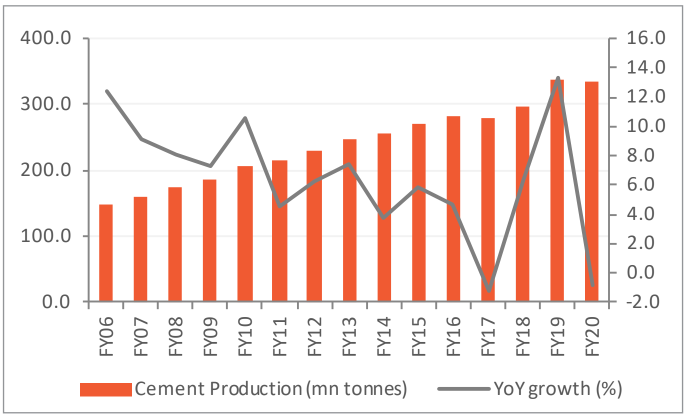


Source: Report of Task Force National Infrastructure Pipeline, Sharekhan Research

Improving demand along with favourable regional pricing environment:

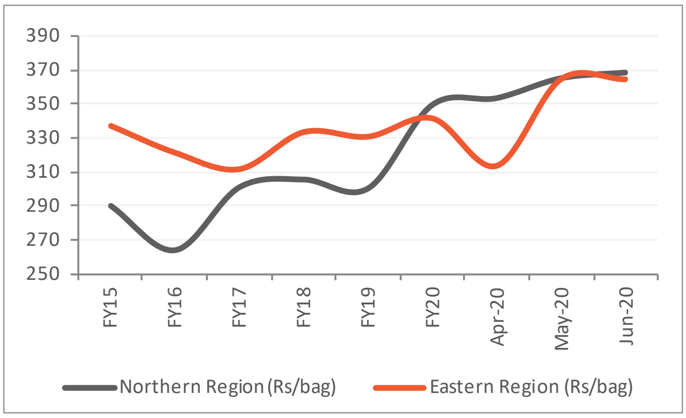
The cement industry has witnessed a steady rise in demand over the trailing fifteen years barring FY2017 and FY2020 led by rise in government spending on infrastructure projects (especially roads) and affordable housing segments (which has been the one of the key focus areas through favourable policy measures). The steady rise in demand has also led to improvement in cement prices across pan-India level. Despite the industry facing the lull in demand in couple of years, the cement prices have remained firm. JK Lakshmi's region of operations viz. Northern and Eastern regions have also seen improvement in cement prices over the trailing five years. While the northern region have seen higher rise in cement prices on account of near full capacity utilization levels, the eastern region has caught up in recent times owing to increasing demand from rural sectors and increasing investments from the government.

Cement Production trend



Source: DPIIT, Sharekhan Research

North and East cement price trend

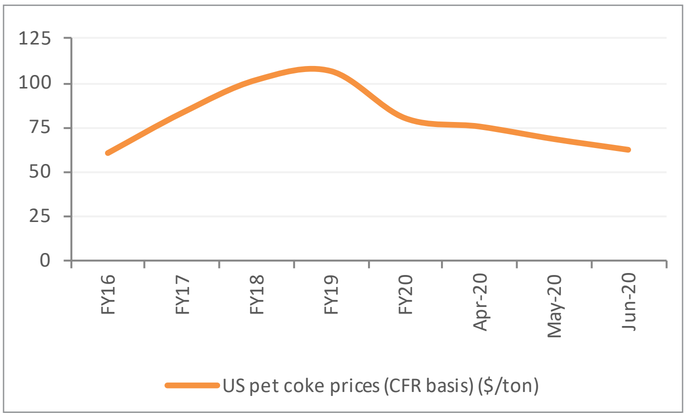


Source: Sharekhan Research

Input cost benefits

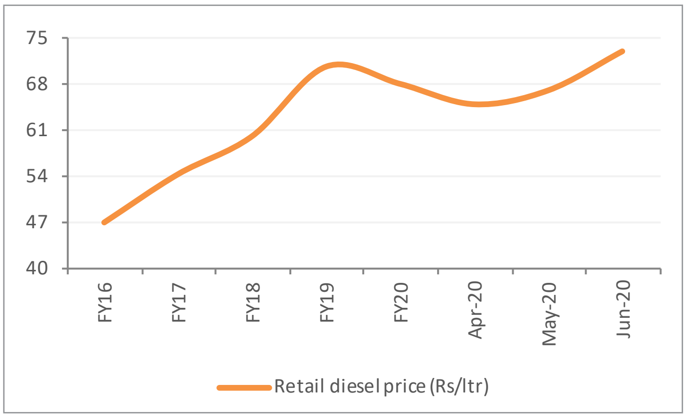
The cement industry's key input costs viz. power, fuel and freight on an average comprise 45-50% of revenues and are major levers for players to improve profitability by altering fuel mix and lead distances. Petcoke and diesel prices (in metro cities) have declined from their 2019 peaks with softening crude oil prices. This has helped cement industry players in posting record profitability in terms of EBITDA/tonne for FY2020. Further, the International average petcoke price for Q1FY2021 is higher 1% q-o-q (although down ~29% y-o-y), while average retail diesel prices across metros for Q1FY2021 were also up 1% q-o-q (up ~1% y-o-y). The fall in crude oil prices have not been passed through in petcoke and diesel prices, leading to a marginal increase rise q-o-q. Average rail freight for April-May 2020 also declined by more than 12% y-o-y but is almost flat versus Q4FY2020. Overall, sequential improvement in cement prices and a flat to marginal rise in key input costs during Q1FY2021 should help operating margins stay intact, absorbing fixed costs of cement companies.

Petcoke price trend



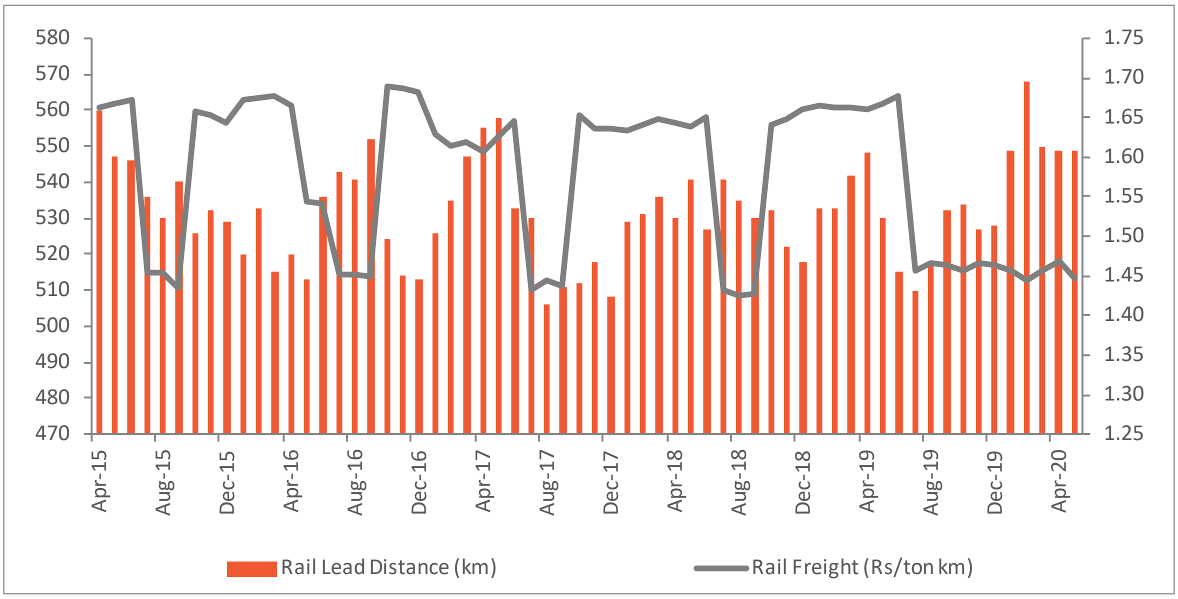
Source: Industry Data, Sharekhan Research

Retail Diesel Prices



Source: Ministry of Petroleum, Sharekhan Research

Rail cement lead distance and freight trend

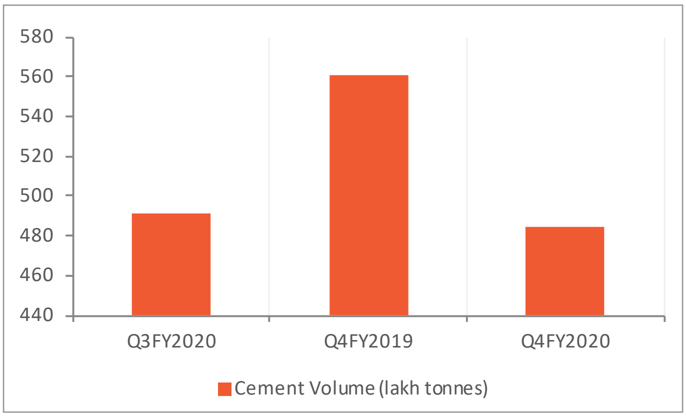


Source: Ministry of Railways, Sharekhan Research

COVID-19 impact on cement industry – The way forward

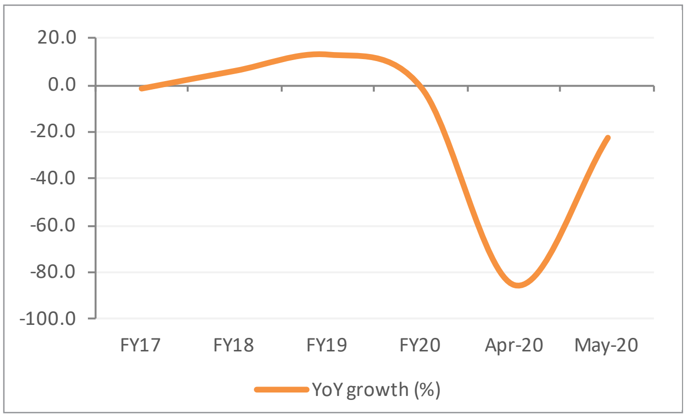
The cement industry was severely impacted by the nation-wide lockdown announced by the Indian government on March 24, 2020 to contain the COVID-19 pandemic. Consequently, companies had to completely shut down plants and operations. With the government allowing manufacturing activities to operate from April 20, 2020, the companies resumed operations gradually. The shutdown of operations during March 2020, which is considered the peak period for sales, dented the industry's volumes for Q4FY2020. Our cement coverage universe reported a 13.6% y-o-y decline in volumes for Q4FY2020. Further, though the companies resumed the operations, capacity utilisations remained abysmally low during April 2020 with cement production declining by 85% y-o-y. Cement companies improved capacity utilisation during May 2020, as production dropped by 22% y-o-y.

Cement universe volumes dip in Q4FY20



Source: Industry, Sharekhan Research

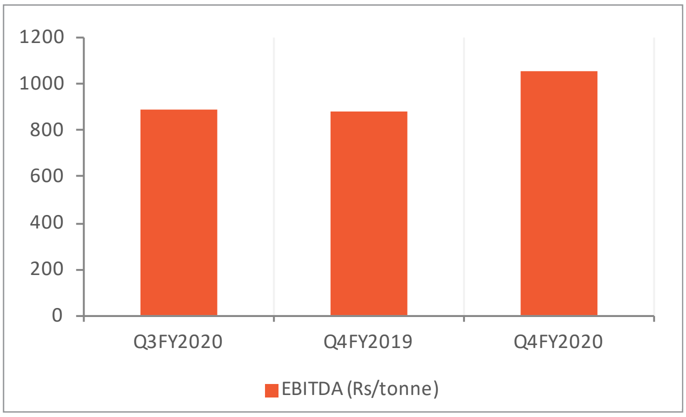
Cement production y-o-y growth (%)



Ministry of Statistics & Programme Implementation; Sharekhan Research

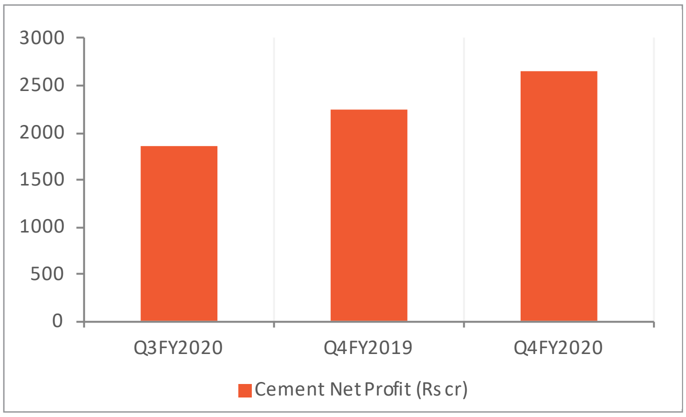
Despite getting hit on volume, the industry beat our expectations on profitability for Q4FY2020. The weighted average EBITDA/tonne for our coverage universe saw a surge of 20% y-o-y led by a rise in realisation (up 3.2% y-o-y) and contained opex. Strong operational performance led to 18.5% y-o-y growth in net earnings for our coverage universe beating ours as well as the street's estimates.

Surge in EBITDA/tonne



Source: Industry, Sharekhan Research

Net earnings boost



Source: Industry, Sharekhan Research

Our interaction with industry players suggests there has been a further improvement in cement demand in June 2020 mainly led by pent-up demand emanating from rural sector and semi-urban pockets. Cement prices during Q1FY2021 improved 5.2% q-o-q owing to supply side constraints (gradual pick-up in capacity utilisation) and demand improving m-o-m. Hence, for Q1FY2021, we expect the cement industry to benefit from healthy realisation and benign costs to aid in absorbing fixed costs. Most industry players expect demand to further pick up from Q3FY2021 onwards with healthy bounceback in cement volumes in FY2022.

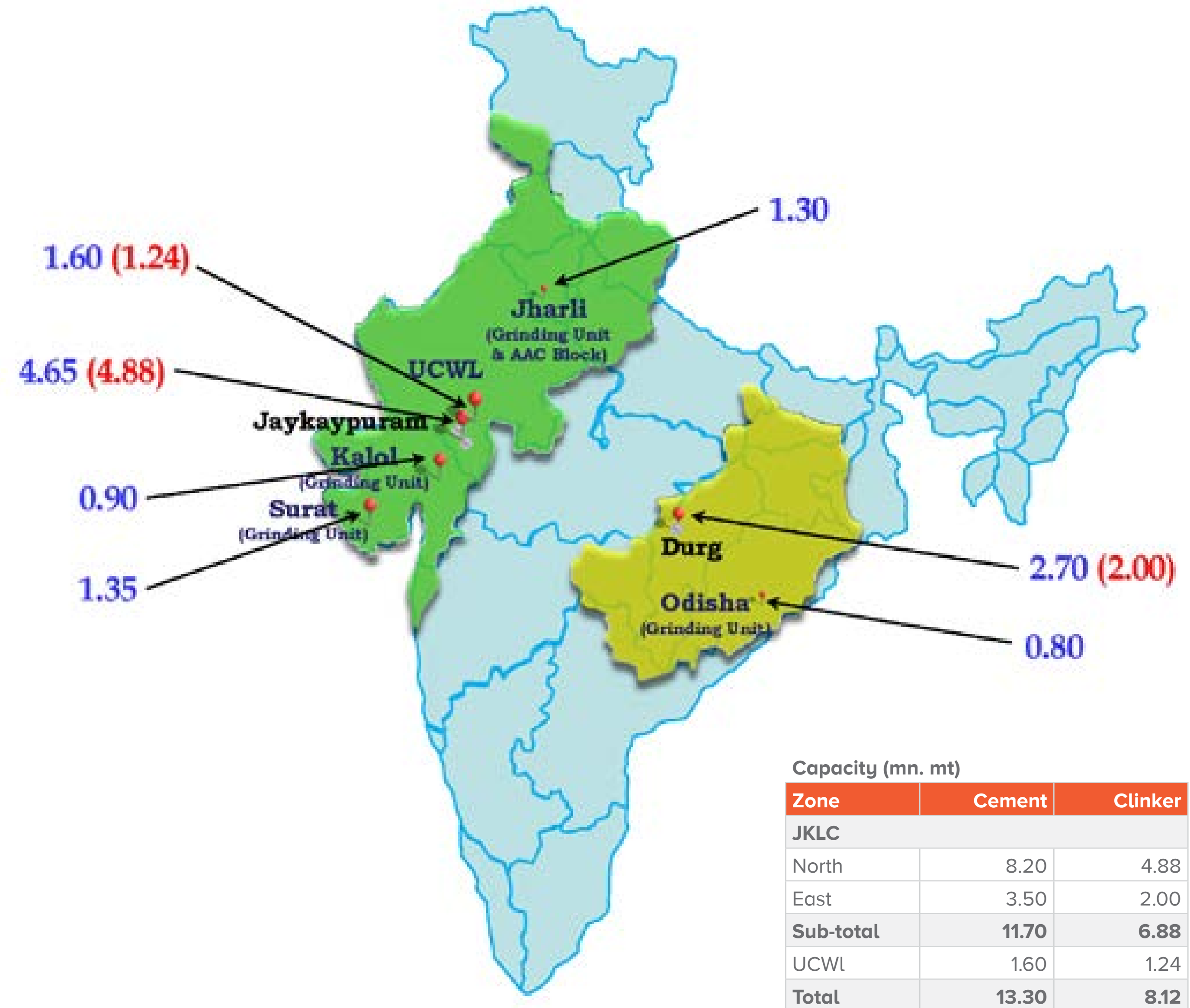
Why we like JKL – Prudent capital management; awaiting next leg of expansion

JK Lakshmi Cement (JKL) has a legacy of expanding capacities at an opportune time, keeping leverage under check. Its continuous focus on cost rationalisation has helped it become an efficient cement player. We expect it to reap benefits from healthy cement demand outlook after FY2021.

Expanding and consolidating capacities in North and East regions

JKL began its journey in 1982 with a 0.5 MTPA capacity at Sirohi, Rajasthan. Since then, the company has been continuously expanding and consolidating its position in North and East regions with current cement capacity at 13.3 MTPA and clinker capacity of 8.12 MTPA, including its listed subsidiary Udaipur Cement Works. In the northern region, Rajasthan and Gujarat are its major markets comprising ~40% and ~35% of the total northern region. In eastern region, through its Durg plant, the company's major markets are Chhattisgarh (~56%), Odisha (~18%), Madhya Pradesh (~10%) and Maharashtra (~7%).

Cement (Clinker) plants in North and East regions



Capacity (mn. mt)

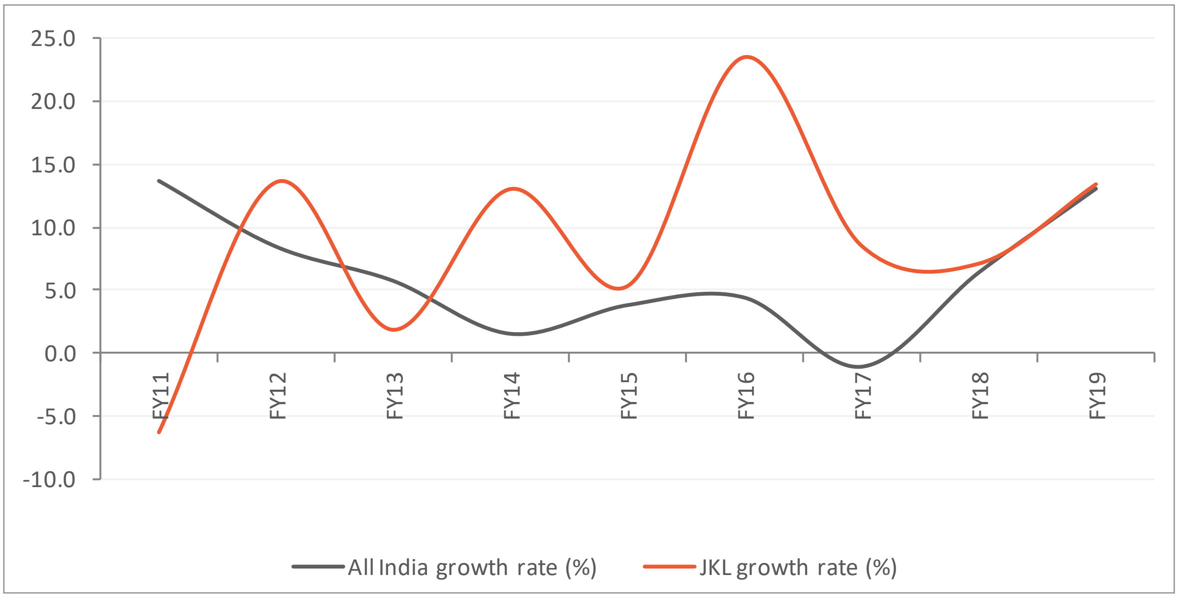
Zone	Cement	Clinker
JKLC		
North	8.20	4.88
East	3.50	2.00
Sub-total	**11.70**	**6.88**
UCWl	1.60	1.24
Total	**13.30**	**8.12**

Source: Company, Sharekhan Research

Outpacing industry growth rate

JKL has often outpaced industry growth rates by virtue of its timely capacity expansion plans, which highlight its prudent assessment of the industry's cyclical nature. During FY2018-2019, JKL has been outpacing industry growth rates, while in FY2020 sales volume declined by 5% y-o-y, led by a steep 16% y-o-y fall in sales volume in Q4FY2020 on account of COVID-19 led disruption during March 2020. Post an expected steep decline in cement sales volumes in FY2021 due to COVID-19 led disruptions, we expect JKL's sales volumes to clock a 12% CAGR over FY2021E-FY2023E.

Cement demand Vs JKL Volume growth trend

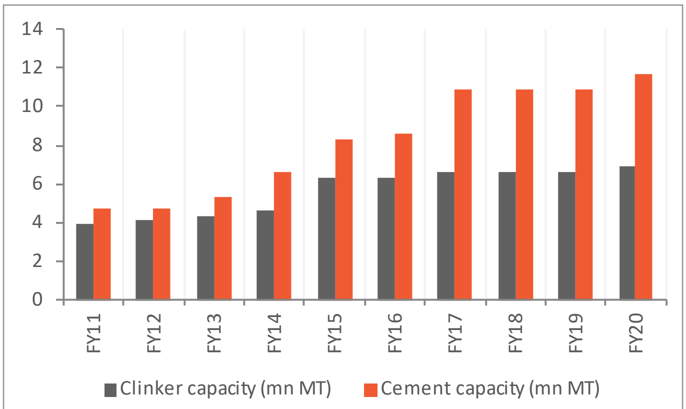


Source: Company Data; Sharekhan Research

Keeping leverage under check while expanding capacities

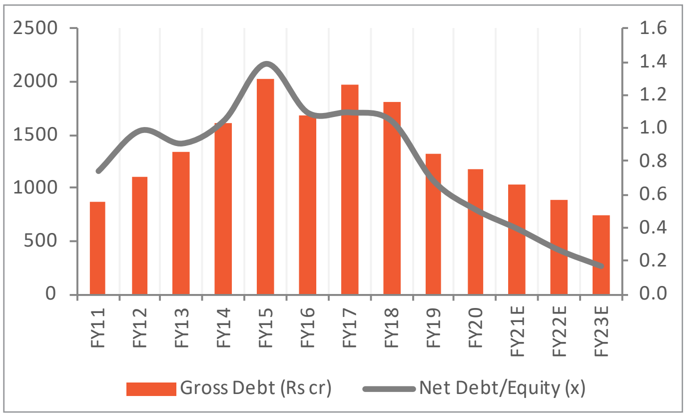
JK Lakshmi Limited (JKL) had expanded capacity by a total of 8.6 MT since FY2012 at various locations (Durg, Sirohi, Kalol, Udaipur and Orissa) and almost trebled its consolidated capacity from 4.75MT to 13.3MT as of FY2020. Despite, this aggressive expansion, the company has been able to lower its standalone gross debt-to-equity ratio to 0.7x (FY2020), which peaked at 1.5x in FY2017, which highlights its efficient capital management. Further, the company has a brownfield expansion potential that could help it reach 20 MT in a short time.

Installed capacity trend



Source: Company Data; Sharekhan Research

Leverage trend

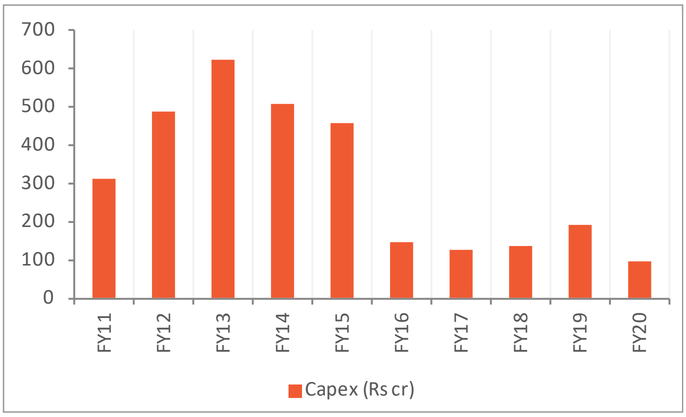


Source: Company Data; Sharekhan Research

Strong OCF generation in absence of capex plan to de-leverage balance sheet

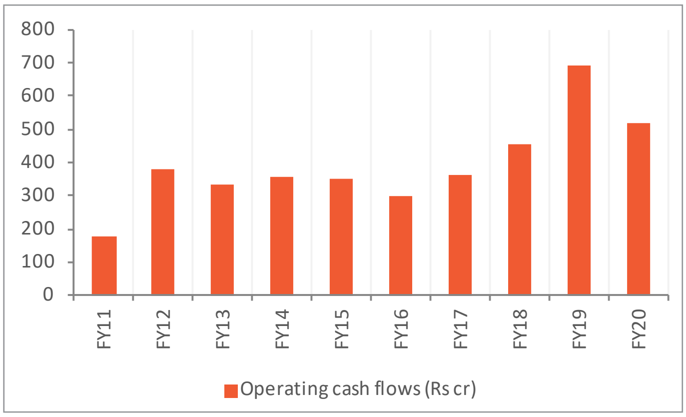
JKL completed its major capacity expansion plans, with the last leg getting completed during FY2019 (capex estimated at Rs. 230 crore), as the Odisha grinding unit (0.8 MT) was completed. The company like its peers has put capacity expansion plans on hold as of now. JKL was evaluating a Rs. 1,200-1,400 crore capacity expansion plan at either Sirohi or Udaipur locations. However, considering the near-term weak macro environment, the management thinks that it would be prudent to conserve cash. It will be only completing WHRS work at Sirohi entailing capex of Rs. 120 crore for FY2021 apart from the regular Rs. 20 crore maintenance capex at the standalone level. Meanwhile, the company will be bringing down its standalone debt by Rs. 250 crore per annum over the current and next fiscal. JKL's standalone net debt-to-equity ratio is slated to go down to 0.3x in FY2023 from 0.7x as of FY2020, as it generates over Rs. 440 crore operating cash flows per annum with no immediate need of capacity expansion during FY2021E-FY2023E.

Capex trend



Source: Company Data; Sharekhan Research

Operating cash flow trend

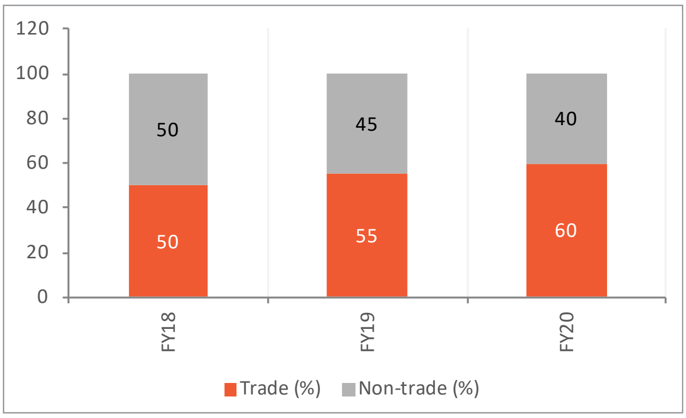


Source: Company Data; Sharekhan Research

Rising trade sales drives up realisation

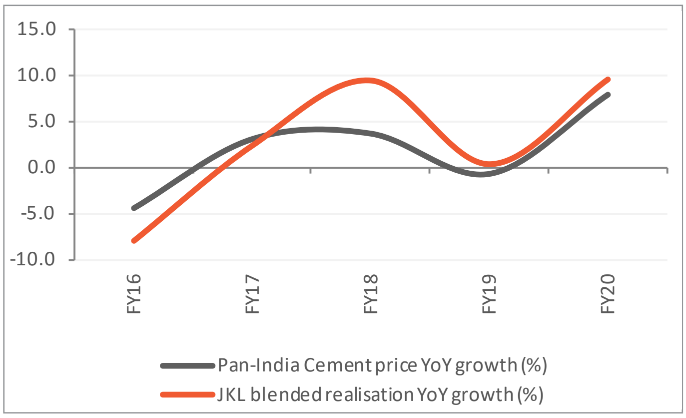
JKL, over the past three years, increased trade sales from 50% in FY2018 to 60% in FY2020. Increase in trade sales along with premium product contribution (~20% of trade sales) has led to an increase in its overall rise in realisation as compared to pan-India cement prices.

Rising trade sales



Source: Company Data; Sharekhan Research

Improving realisations

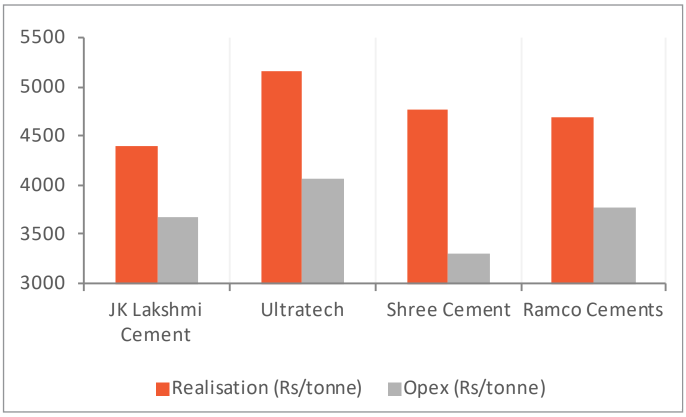


Source: Company Data; Sharekhan Research

In the league of cost-efficient producers

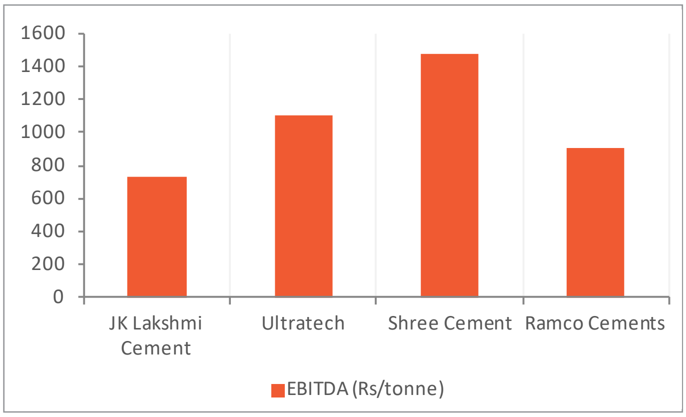
JKL's total operating cost per tonne is in line with average of three larger players in the industry. However, JKL's realisation per tonne is at a ~10% discount to the average of three larger players in the industry which leads to lower profitability in terms of EBITDA/tonne than its bigger peers. The company has been able to narrow down its profitability (EBITDA/tonne up 70% y-o-y) during FY2020 owing to strong 9% y-o-y rise in realisations.

Opex & Realisation (FY20)



Source: Company Data; Sharekhan Research

EBITDA/tonne (FY20)



Source: Company Data; Sharekhan Research

WHRS expansion at Sirohi

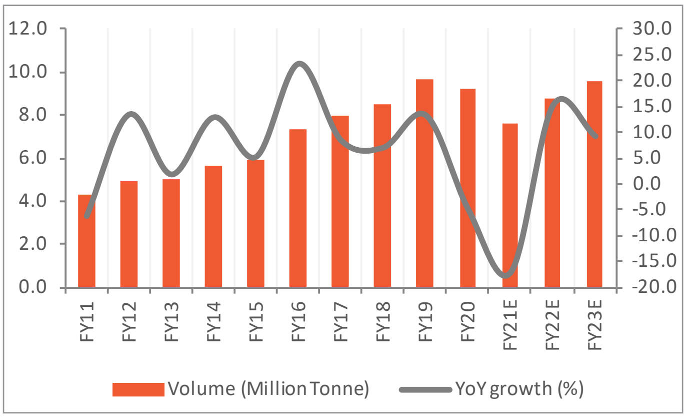
The company currently has a thermal power capacity of 54 MW and a 15 MW waste-heat recovery system (WHRS) in North India. It is undertaking a 12-MW WHRS expansion at Sirohi plant, which is expected to lead to Rs. 7-8 crore per quarter savings. The company has a 7.5 MW WHRS and 20 MW thermal power capacity in the Eastern region.

Healthy utilisation levels in FY2022-FY2023 and pricing environment in its key markets:

JKL is currently operating its plants at 65% capacity utilisation and expects to improve its capacity utilisation during Q3FY2021 (Q2FY2020 remains lean season due to monsoons). Further, prices in North and West have shown improvement of 2% and 5% q-o-q for Q1FY2021 while the East has seen price rise of 7% q-o-q during the same period. Increased utilisation and higher cement prices are expected to bring back JKL's growth trajectory during FY2022E-FY2023E.

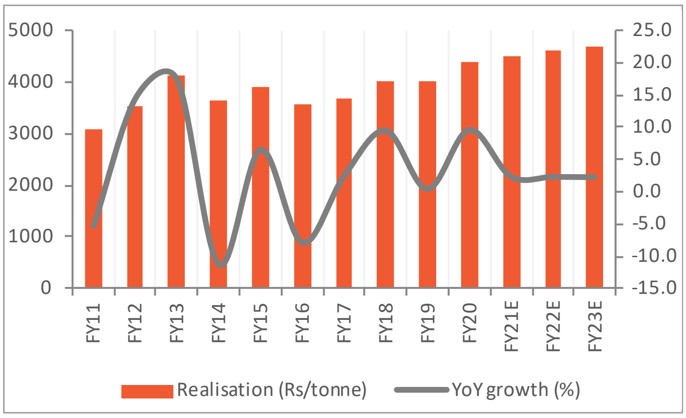
Financials in charts

Volume trend



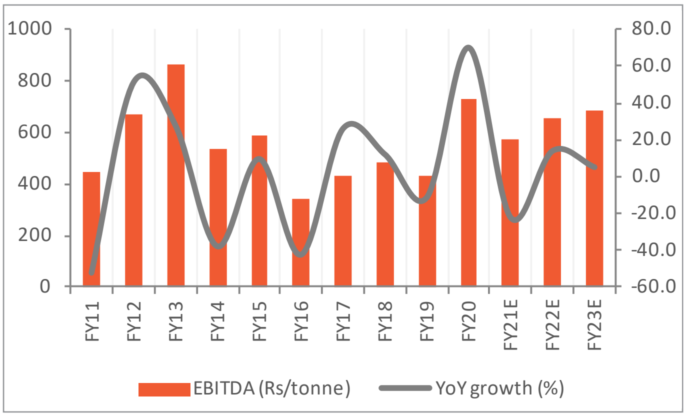
Source: Company Data; Sharekhan Research

Realisation trend



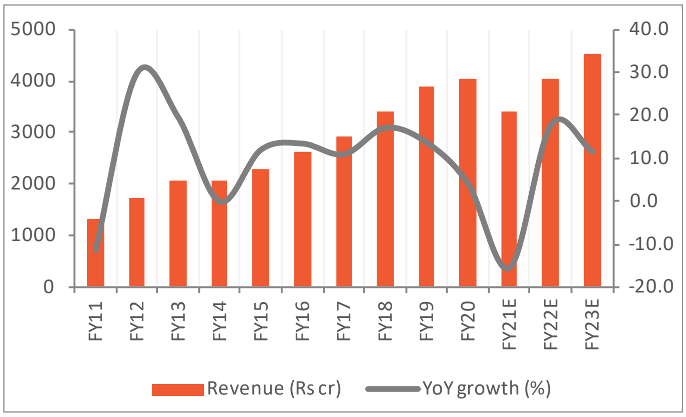
Source: Company Data; Sharekhan Research

EBITDA/tonne trend



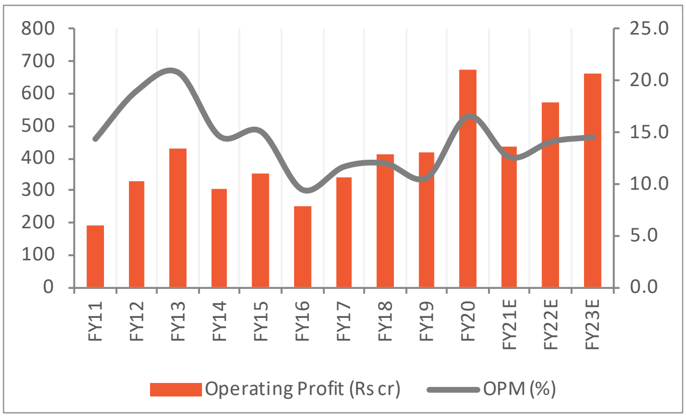
Source: Company Data; Sharekhan Research

Revenue trend



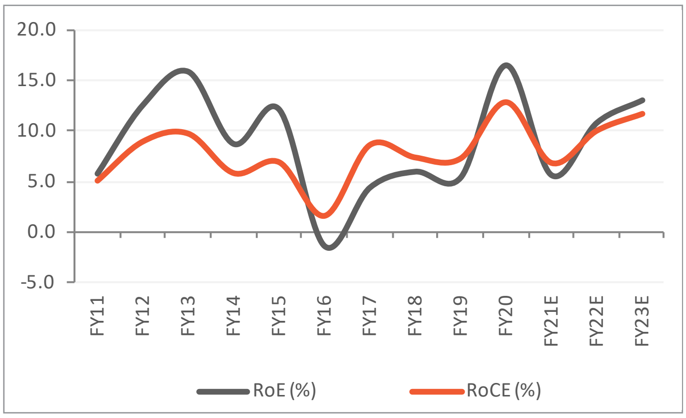
Source: Company Data; Sharekhan Research

Operating profit trend



Source: Company Data; Sharekhan Research

Return ratios trend



Source: Company Data; Sharekhan Research

Valuation – Trades below its historical average and replacement cost

JKL trades at a discounted valuation due to lower profitability per tonne as compared to larger peers mainly due to pricing premium enjoyed by its larger peers.

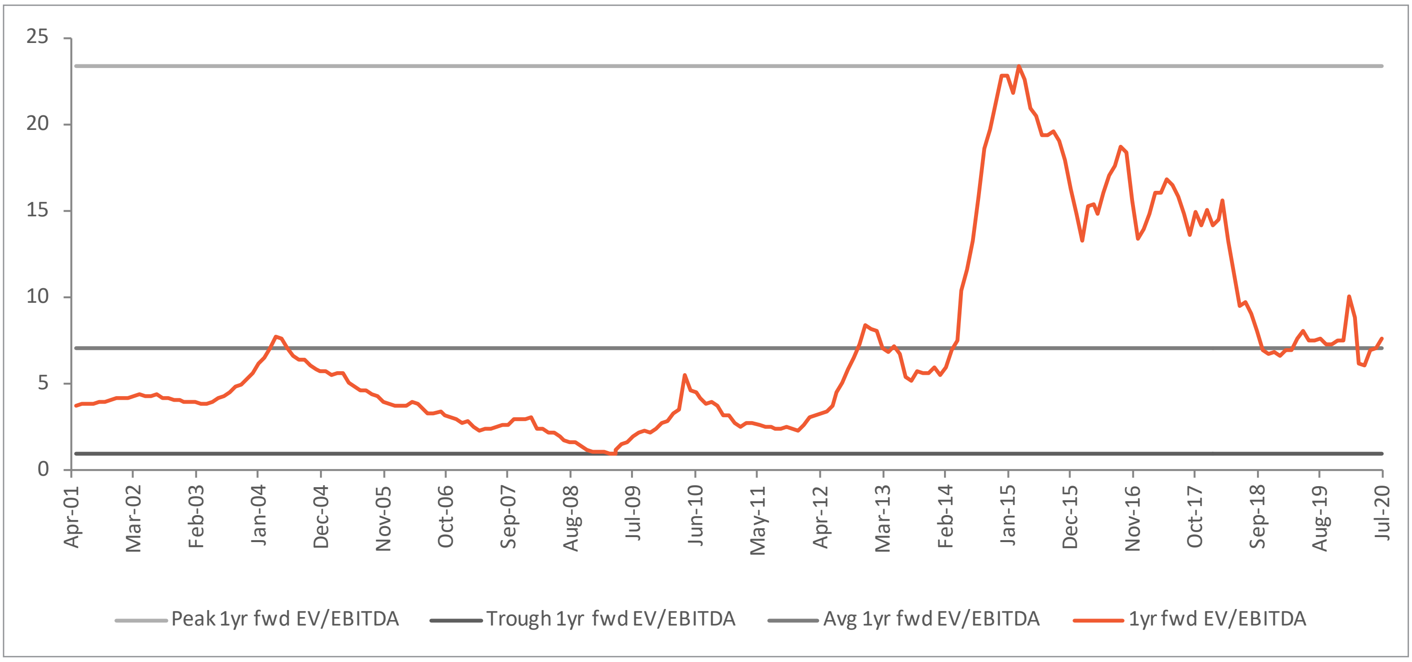
Outlook – Expect improvement from Q3FY2021

Expect improvement from Q3FY2021: The cement industry has been affected by stoppage of work on construction sites amid the COVID-19 lockdown. Currently, company's plants are operating at a 65% capacity utilisation. The management expects capacity utilisation to improve from Q3FY2021 onwards as Q2FY2021 remains a lean season due to the monsoon. Further, the company has hiked cement prices in the Eastern, Northern and Central regions. Overall, we expect cement volume to bounce back from FY2022 as normalcy returns. We expect a 12% volume CAGR over FY2021E-FY2023E. In the interim, healthy pricing discipline and contained opex should help limit impact on OPMs.

Valuation

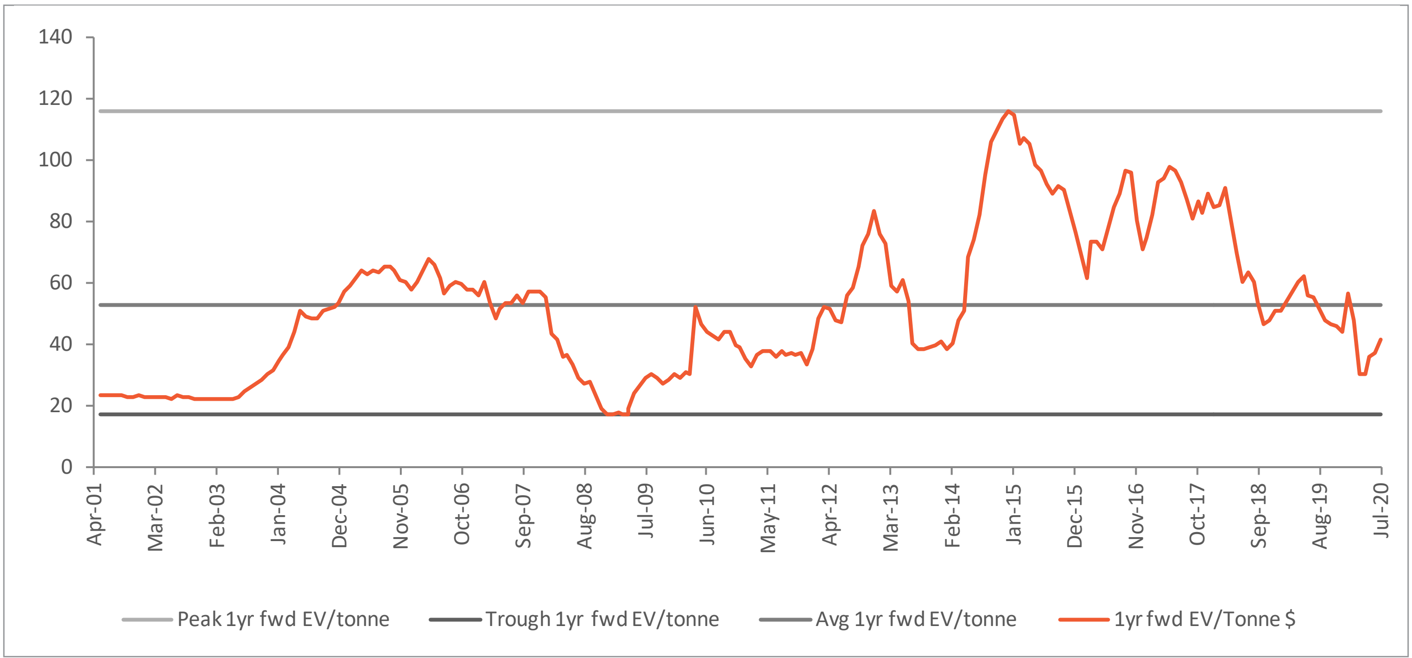
Initiate with Buy assigning a PT of Rs. 372: The cement industry in general and JKL in particular have been affected by COVID-19-led disruption in demand environment in the near term. However, JKL like other cement players have started improving capacity utilisation. We expect cement demand to start improving from Q3FY2021 onwards with a healthy bounceback during FY2022. JKL is currently trading at an EV/EBITDA of 4.9x its FY2023E and EV/tonne of $36, which is below its historical average. Hence, we initiate coverage on the stock with a Buy rating valuing the stock at 6.5x its FY2023E standalone earnings leading to price target of Rs. 372.

One-year forward EV/EBITDA (x) band



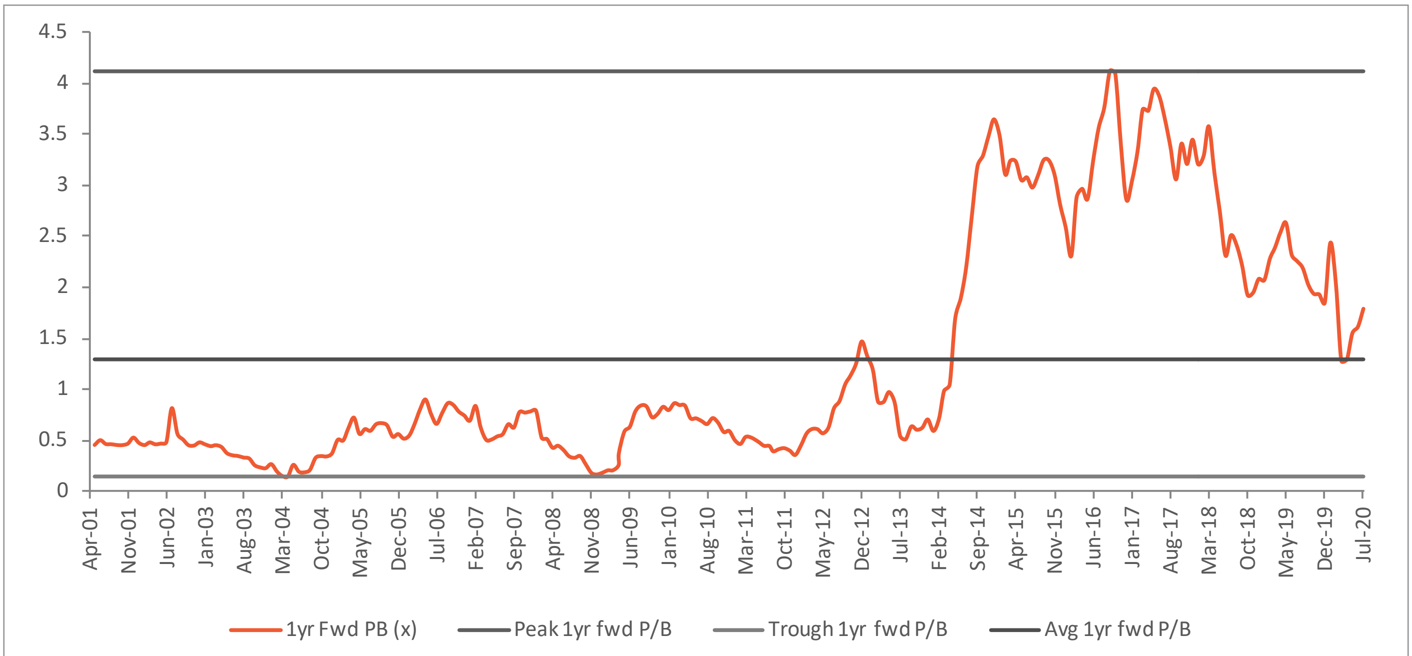
Source: Sharekhan Research

One-year forward EV/tonne (USD) band



Source: Sharekhan Research

One-year forward P/B (x) band



Source: Sharekhan Research

Peer Comparison

Particulars	P/E (x)		EV/EBITDA (x)		P/BV (x)		RoE (%)	
	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
Shree Cement	61.1	44.5	21.3	17.1	5.9	5.3	10.0	12.5
UltraTech	39.4	28.3	15.5	12.6	2.7	2.5	7.1	9.2
The Ramco Cements	29.8	22.0	16.7	13.1	2.9	2.6	10.1	12.4
JK Lakshmi Cement	33.6	16.1	8.1	5.9	1.6	1.5	10.8	13.0

Source: Sharekhan Research

Financials (Standalone)

Statement of Profit and Loss Rs cr

Particulars	FY2019	FY2020	FY2021E	FY2022E	FY2023E
Net sales	**3,882**	**4,044**	**3,425**	**4,040**	**4,513**
Growth(%)	14	4	(15)	18	12
Total Expenditure	**3,467**	**3,371**	**2,991**	**3,468**	**3,853**
Raw material	818	851	767	860	931
Employee	269	312	359	402	450
Power & Fuel	920	844	709	836	934
Freight cost	953	818	697	829	933
Other Expenditure	508	546	459	541	604
Operating profit	**415**	**672**	**434**	**572**	**659**
Growth(%)	1	62	(35)	32	15
Operating profit Margin %	**10.7**	**16.6**	**12.7**	**14.2**	**14.6**
Depreciation	179	188	200	205	211
EBIT	236	484	234	367	448
EBIT margin (%)	6	12	7	9	10
Other Income	57	50	50	48	48
Interest Expenses	188	164	145	124	103
E/O item	-	30	-	-	-
PBT	104	339	140	291	394
Tax	25	104	42	87	118
Effective Tax rate (%)	24	31	30	30	30
Reported Net profit	**80**	**235**	**98**	**204**	**276**
Growth(%)	(5)	196	(58)	108	35
E/O item	-	30	-	-	-
Adjusted net profit	**80**	**265**	**98**	**204**	**276**
Growth(%)	(5)	234	(63)	108	35
EPS	6.8	22.6	8.3	17.3	23.4
Growth(%)	(5)	234	(63)	108	35

Source: Company; Sharekhan Research

Balance Sheet Rs cr

Particulars	FY2019	FY2020	FY2021E	FY2022E	FY2023E
Equity share capital	59	59	59	59	59
Reserves & surplus	1,464	1,654	1,738	1,920	2,167
Net worth	**1,523**	**1,713**	**1,796**	**1,979**	**2,226**
Total Loan funds	**1,319**	**1,183**	**1,033**	**883**	**733**
Net deferred taxes	(22)	20	20	20	20
Total Liabilities	**2,820**	**2,916**	**2,850**	**2,883**	**2,980**
Net Block	**2,639**	**2,804**	**2,756**	**2,701**	**2,640**
CWIP	411	152	150	150	150
Investment	720	784	784	784	784
Current Asset	**664**	**810**	**678**	**773**	**849**
Inventories	312	413	350	412	461
Sundry Debtors	107	88	75	88	98
Cash & Bank balance	18	31	24	22	24
Loans & Advances	97	160	113	133	148
Other current assets	130	117	117	117	117
Current liabilities & pro.	**1,614**	**1,634**	**1,518**	**1,525**	**1,443**
Current liabilities	1,597	1,617	1,491	1,473	1,372
Provisions	17	17	27	52	70
Net current asset	**(950)**	**(824)**	**(840)**	**(752)**	**(594)**
Total Assets	**2,820**	**2,916**	**2,850**	**2,883**	**2,980**

Source: Company; Sharekhan Research

Cash Flow Statement   Rs cr

Particulars	FY2019	FY2020	FY2021E	FY2022E	FY2023E
Cash flow from operating activities	689	511	451	443	433
Cash flow from investing activities	-78	-159	-150	-150	-150
Cash flow from financing activities	-605	-369	-309	-295	-281
Net change in cash and cash equivalents	6	-17	-8	-2	2
Opening Cash balance	12	18	32	24	22
Closing Cash balance	18	32	24	22	24
Free Cash Flows (FCFF)	**483**	**436**	**257**	**256**	**252**
Free Cash Flows to Equity (FCFE)	**-54**	**175**	**6**	**20**	**31**

Source: Company; Sharekhan Research

Key Ratios

Particulars	FY2019	FY2020	FY2021E	FY2022E	FY2023E
Margins (%)					
GPM	78.9	78.9	77.6	78.7	79.4
OPM	10.7	16.6	12.7	14.2	14.6
NPM	2.0	5.8	2.9	5.0	6.1
Tax rate	23.8	30.7	30.0	30.0	30.0
As a percentage of revenue (%)					
Raw Material Cost	21.1	21.1	22.4	21.3	20.6
Employee Cost	6.9	7.7	10.5	9.9	10.0
Power & fuel Cost	23.7	20.9	20.7	20.7	20.7
Freight costs	24.6	20.2	20.4	20.5	20.7
Other Expenses	13.1	13.5	13.4	13.4	13.4
Financial ratios					
Debt / Equity (x)	0.9	0.7	0.6	0.4	0.3
Inventory days	29	37	37	37	37
Debtor days	10	8	8	8	8
Payable days	54	51	56	52	50
Working capital cycle	-91	-77	-92	-70	-50
Adjusted EPS (Rs.)	6.8	22.6	8.3	17.3	23.4
Cash EPS (Rs.)	22.0	38.6	25.3	34.8	41.3
Dividend Per Share (Rs.)	0.8	2.5	1.0	1.5	2.0
Dividend Payout Ratio (%)	13.4	13.4	14.5	10.4	10.3
Book Value Per Share (Rs.)	129.4	145.5	152.6	168.1	189.1
RoNW (%)	5.3	16.4	5.6	10.8	13.1
RoCE (%)	7.4	12.9	6.9	10.1	11.9
Valuation ratios					
CMP (Rs.)	279.3	279.3	279.3	279.3	279.3
P/E (x)	41.3	12.4	33.6	16.1	11.9
M.cap (Rs. crore)	3286.8	3286.8	3286.8	3286.8	3286.8
Market cap / Sales (x)	0.8	0.8	1.0	0.8	0.7
Enterprise Value (Rs. crore)	3868.1	3654.1	3511.8	3363.5	3211.3
EV / Sales (x)	1.0	0.9	1.0	0.8	0.7
EV / EBIDTA (x)	9.3	5.4	8.1	5.9	4.9
Price / Book value (BV)	2.2	1.9	1.8	1.7	1.5
Dividend yield (%)	0.3	0.9	0.4	0.5	0.7
Growth ratios (%)					
Revenue	13.8	4.2	-15.3	17.9	11.7
Operating profit	0.9	62.0	-35.4	31.8	15.2
Profit before tax	1.7	254.0	-62.2	108.2	35.1
Adjusted PAT	-5.2	233.7	-63.1	108.2	35.1
EPS	6.8	22.6	8.3	17.3	23.4

Source: Company; Sharekhan Research

About company

JKL was set up in 1982 in Sirohi, Rajasthan. The company is part of JK Organisation, which operates in India and abroad and is present in the tyre, cement, paper, power transmission and sealing solutions, dairy products and textile industries. The company is catering to North-West and East regions with current consolidated cement capacity at 13.3 MTPA and clinker capacity of 8.12 MTPA, including its listed subsidiary Udaipur Cement Works. The company has a wide network of over 7,000 dealers across Rajasthan, Gujarat, Haryana, Delhi, Uttar Pradesh, Punjab, Jammu and Kashmir, Madhya Pradesh, Chhattisgarh, Odisha, South Bengal, Vidharbha, Mumbai and Pune.

Investment theme

JKL had undertaken capacity expansion plans of 8.6MT since FY2015, trebling its capacity to 13.3MT by FY2020. Moreover, JKL has been able to reduce its standalone net debt to equity at 0.7x in FY2020 from its peak of 1.5x in FY2015, which shows efficient capital management. The company has a brownfield expansion potential to reach 20MT in a short time. Now, it has two distinctive markets, i.e. the East and North West regions.

Key Risks

- Pressure on cement demand and cement prices in the north-west and east India can affect financial performance.
- Macroeconomic challenges leading to lower government spending on infrastructure and housing sectors can negatively affect the company's performance.

Additional Data

Key management personnel

Bharat Hari Singhania	Chairman
S A Bidkar	Chief Financial Officer
B K Daga	Vice President , Company Secretary & Compliance Officer

Source: Bloomberg

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Bengal & Assam Co Ltd	44.52
2	Franklin Resources Inc	9.49
3	FRANKLIN TEMPLETON MUTUAL	9.49
4	BANSAL SACHIN	3.67
5	ICICI Prudential Asset Management	3.62
6	HDFC Life Insurance Co Ltd	2.74
7	GOVERNMENT PENSION FUND - GLOBAL	2.63
8	Norges Bank	2.63
9	Life Insurance Corp of India	2.46
10	PRAZIM TRADING & INV CO	1.47

Source: Bloomberg

Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/weak realisation environment resulting in margin pressure and detoriating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

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