

August 10, 2020

Q1FY21 Result Update

☑ Change in Estimates | ■ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY21E	FY22E	FY21E	FY22E
Rating	BUY		BUY	
Target Price	350		350	
Sales (Rs. m)	38,010	41,411	36,720	41,792
% Chng.	3.5	(0.9)		
EBITDA (Rs. m)	6,479	6,680	6,263	6,826
% Chng.	3.4	(2.1)		
EPS (Rs.)	20.9	23.3	19.7	24.1
% Chng.	6.5	(3.6)		

Key Financials - Standalone

Y/e Mar	FY20	FY21E	FY22E	FY23E
Sales (Rs. m)	40,435	38,010	41,411	44,629
EBITDA (Rs. m)	6,994	6,479	6,680	7,115
Margin (%)	17.3	17.0	16.1	15.9
PAT (Rs. m)	2,749	2,465	2,741	3,279
EPS (Rs.)	23.4	20.9	23.3	27.9
Gr. (%)	245.5	(10.3)	11.2	19.6
DPS (Rs.)	2.0	1.0	1.0	1.0
Yield (%)	0.7	0.3	0.3	0.3
RoE (%)	17.0	13.4	13.1	13.8
RoCE (%)	16.9	14.5	14.6	16.5
EV/Sales (x)	1.0	1.1	0.9	0.7
EV/EBITDA (x)	5.9	6.3	5.5	4.3
PE (x)	12.3	13.7	12.3	10.3
P/BV (x)	2.0	1.7	1.5	1.3

Key Data

JKLC.BO | JKLC IN

52-W High / Low	Rs.389 / Rs.180
Sensex / Nifty	38,041 / 11,214
Market Cap	Rs.34bn / \$ 450m
Shares Outstanding	118m
3M Avg. Daily Value	Rs.239.46m

Shareholding Pattern (%)

Promoter's	46.21
Foreign	10.41
Domestic Institution	19.99
Public & Others	23.39
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	1.4	(19.9)	(13.6)
Relative	(2.3)	(13.4)	(16.6)

Kamlesh Bagmar

kamleshbagmar@plindia.com | 91-22-66322237

Amit Khimesra

amitkhimesra@plindia.com | 91-22-66322244

Lower costs drove the beat, Maintain BUY

Quick Pointers:

- Consolidated net debt fell 14%/Rs2bn at Rs13.5bn; would fall by another Rs2bn in rest of FY21e.
- Its subsidiary Udaipur Cement Works (UCWL) posted EBITDA/t of Rs1,000

JK Lakshmi Cement (JKLC) reported Q1FY21 earnings 5% above our estimates and in line with consensus estimates. The beat came on the back of lower other expenses.

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. Led by bottomed-out earnings in East operations (25% of volumes) and strong outlook on North and Gujarat region (combined 75%), JKLC's earnings quality improved significantly over last couple of years. Supported by attractive valuations (EV/EBITDA of 6.3x/5.5x FY21e/FY22e) and capacity addition led volume growth, we maintain BUY with TP of Rs350, EV/EBITDA of 6.5x FY22e.

- Lower costs make up for miss on realisations:** JKLC's sales volumes fell 18% YoY at 1.9mnt, in line with our estimate. Blended realisations rose marginally by 0.6% QoQ/Rs25 (↓3% YoY/Rs140) at Rs4,330 (PLe:Rs4,360) due to 72% QoQ/71% YoY fall in RMC revenues. Owing to lower than expected other expenses, Cost came below our estimates at Rs3,580/t (PLe:Rs3,635), down 1.3% YoY. Led by lower costs, EBITDA/t came above our estimates at Rs750 (PLe:Rs725), down 10% YoY. Hence, EBITDA fell 27% YoY at Rs1.43bn (PLe:Rs1.36bn). PAT fell 42% YoY at Rs444mn (PLe:Rs335mn).
- Key highlights of earnings con-call:** 1) Cement demand grew in June and July'20 YoY due to uptick in rural demand 2) Demand impacted in Gujarat region due to spread of virus and lockdowns 3) Price fell by ~Rs10/bag in July'20; usual due to monsoon 4) Expects to sell 9.2mnt in FY21e, flat YoY 5) Commissioning of 10MW Waste Heat Recovery plant at Sirohi plant delayed by six months to Q2FY22e 6) Would reduce debt by Rs2bn in rest of FY21e and by similar quantum in FY22e 7) Trade sales rose 200bps YoY to 61% 8) Pet coke prices fell 13% YoY/4% QoQ to Rs6,750/t 9) Will approve brownfield capacity addition of 2.5mnt in UCWL in next quarter at likely capital outlay of Rs14-15bn 10) SGST incentives (30% of 14% SGST) in UCWL to expire by March-2021.

Exhibit 1: Q1FY21 Result Overview (Rs mn)

Y/e March	Q1FY21	Q1FY20	YoY gr. (%)	Q4FY20	FY21E	FY20	YoY gr. (%)
Net Sales	8,252	10,419	(20.8)	10,612	38,010	40,435	(6.0)
Raw Material	2,136	1,999	6.9	2,361	9,686	8,822	9.8
<i>% of Net Sales</i>	<i>25.9</i>	<i>19.2</i>		<i>22.2</i>	<i>25.5</i>	<i>21.8</i>	
Staff Costs	808	800	1.0	760	3,215	3,089	4.1
<i>% of Net Sales</i>	<i>9.8</i>	<i>7.7</i>		<i>7.2</i>	<i>8.5</i>	<i>7.6</i>	
Power & Fuel	1,315	2,233	(41.1)	2,005	7,372	8,439	(12.6)
<i>% of Net Sales</i>	<i>15.9</i>	<i>21.4</i>		<i>18.9</i>	<i>19.4</i>	<i>20.9</i>	
Freight and selling expenses	1,658	2,130	(22.2)	2,140	7,979	8,176	(2.4)
<i>% of Net Sales</i>	<i>20.1</i>	<i>20.4</i>		<i>20.2</i>	<i>21.0</i>	<i>20.2</i>	
Other Expenses	901	1,288	(30.0)	1,326	3,281	4,916	(33.3)
<i>% of Net Sales</i>	<i>10.9</i>	<i>12.4</i>		<i>12.5</i>	<i>8.6</i>	<i>12.2</i>	
Total Expenditure	6,818	8,451	(19.3)	8,592	31,532	33,441	(5.7)
EBITDA	1,433	1,968	(27.2)	2,020	6,479	6,994	(7.4)
<i>Margin (%)</i>	<i>17.4</i>	<i>18.9</i>		<i>19.0</i>	<i>17.0</i>	<i>17.3</i>	
Depreciation	484	453	6.9	510	2,007	1,884	6.6
Other income	82	61	33.3	225	538	501	7.4
EBIT	1,031	1,577	(34.6)	1,736	5,010	5,611	(10.7)
Interest	378	402	(5.9)	425	1,463	1,644	(11.0)
PBT	653	1,175	(44.4)	1,311	3,547	3,967	(10.6)
Extraordinary income/(expense)	-	(572)		-	-	(572)	
PBT (After EO)	653	603	8.3	1,311	3,547	3,395	4.5
Tax	209	209	0.0	303	1,082	1,042	3.8
<i>% PBT</i>	<i>32.0</i>	<i>34.6</i>		<i>23.1</i>	<i>30.5</i>	<i>30.7</i>	
Reported PAT	444	394	12.7	1,008	2,465	2,352	4.8
Adjusted PAT	444	768	(42.2)	1,008	2,465	2,749	(10.3)

Source: Company, PL

Exhibit 2: Key Operating Metrics

Y/e March	Q1FY21	Q1FY20	YoY gr. (%)	Q4FY20	FY21E	FY20	YoY gr. (%)
Volume (mn te)	1.91	2.33	(18.2)	2.47	8.76	9.18	(4.6)
Net Realisations (Rs/te)	4,331	4,472	(3.1)	4,305	4,341	4,404	(1.4)
EBITDA/ te (Rs/te)	752	845	(10.9)	820	740	762	(2.9)

Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
Net Revenues	40,435	38,010	41,411	44,629
YoY gr. (%)	4.2	(6.0)	8.9	7.8
Cost of Goods Sold	8,822	9,686	10,759	11,516
Gross Profit	31,614	28,324	30,652	33,113
Margin (%)	78.2	74.5	74.0	74.2
Employee Cost	3,089	3,215	3,601	4,033
Other Expenses	4,916	3,281	3,624	3,846
EBITDA	6,994	6,479	6,680	7,115
YoY gr. (%)	68.5	(7.4)	3.1	6.5
Margin (%)	17.3	17.0	16.1	15.9
Depreciation and Amortization	1,884	2,007	2,021	2,123
EBIT	5,110	4,472	4,659	4,992
Margin (%)	12.6	11.8	11.3	11.2
Net Interest	1,644	1,463	1,303	863
Other Income	501	538	588	588
Profit Before Tax	3,395	3,547	3,944	4,717
Margin (%)	8.4	9.3	9.5	10.6
Total Tax	1,042	1,082	1,203	1,439
Effective tax rate (%)	30.7	30.5	30.5	30.5
Profit after tax	2,352	2,465	2,741	3,279
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	2,749	2,465	2,741	3,279
YoY gr. (%)	245.5	(10.3)	11.2	19.6
Margin (%)	6.8	6.5	6.6	7.3
Extra Ord. Income / (Exp)	(397)	-	-	-
Reported PAT	2,352	2,465	2,741	3,279
YoY gr. (%)	195.7	4.8	11.2	19.6
Margin (%)	5.8	6.5	6.6	7.3
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	2,352	2,465	2,741	3,279
Equity Shares O/s (m)	118	118	118	118
EPS (Rs)	23.4	20.9	23.3	27.9

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
Non-Current Assets				
Gross Block	36,830	36,619	38,469	38,719
Tangibles	36,830	36,619	38,469	38,719
Intangibles	-	-	-	-
Acc: Dep / Amortization	8,793	10,800	12,821	14,944
Tangibles	8,793	10,800	12,821	14,944
Intangibles	-	-	-	-
Net fixed assets	28,037	25,819	25,648	23,775
Tangibles	28,037	25,819	25,648	23,775
Intangibles	-	-	-	-
Capital Work In Progress	1,519	3,044	1,860	1,860
Goodwill	-	-	-	-
Non-Current Investments	4,282	4,163	4,163	4,163
Net Deferred tax assets	(205)	(636)	(1,110)	(1,676)
Other Non-Current Assets	396	23	23	23
Current Assets				
Investments	4,169	3,624	3,624	3,624
Inventories	4,128	3,541	3,857	4,157
Trade receivables	882	1,041	1,135	1,223
Cash & Bank Balance	314	2,161	2,289	3,556
Other Current Assets	1,623	1,442	1,498	1,551
Total Assets	45,499	44,318	43,084	42,353
Equity				
Equity Share Capital	589	589	589	589
Other Equity	16,538	19,049	21,672	24,833
Total Network	17,127	19,637	22,261	25,422
Non-Current Liabilities				
Long Term borrowings	11,830	13,129	8,629	4,129
Provisions	114	109	109	109
Other non current liabilities	1,813	1,756	1,756	1,756
Current Liabilities				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	4,685	3,749	4,084	4,402
Other current liabilities	7,577	4,249	4,445	4,630
Total Equity & Liabilities	45,499	44,318	43,084	42,353

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
PBT	3,697	3,547	3,944	4,717
Add. Depreciation	1,884	2,007	2,021	2,123
Add. Interest	1,644	1,463	1,303	863
Less Financial Other Income	501	538	588	588
Add. Other	(695)	(275)	(325)	(325)
Op. profit before WC changes	6,530	6,742	6,943	7,378
Net Changes-WC	(359)	(1,123)	177	168
Direct tax	(758)	(656)	(730)	(873)
Net cash from Op. activities	5,413	4,962	6,390	6,673
Capital expenditures	(865)	(1,370)	(666)	(250)
Interest / Dividend Income	-	-	-	-
Others	(721)	275	325	325
Net Cash from Inv. activities	(1,586)	(1,095)	(341)	75
Issue of share cap. / premium	-	-	-	-
Debt changes	(1,498)	(1,500)	(4,500)	(4,500)
Dividend paid	(455)	-	(118)	(118)
Interest paid	(1,740)	(1,463)	(1,303)	(863)
Others	-	-	-	-
Net cash from Fin. activities	(3,693)	(2,963)	(5,921)	(5,481)
Net change in cash	134	904	128	1,267
Free Cash Flow	4,547	3,592	5,724	6,423

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q2FY20	Q3FY20	Q4FY20	Q1FY21
Net Revenue	9,355	10,050	10,612	8,252
YoY gr. (%)	9.9	7.5	(9.5)	(20.8)
Raw Material Expenses	2,209	2,253	2,361	2,136
Gross Profit	7,146	7,797	8,251	6,116
Margin (%)	76.4	77.6	77.8	74.1
EBITDA	1,487	1,519	2,020	1,433
YoY gr. (%)	62.2	54.6	53.9	(27.2)
Margin (%)	15.9	15.1	19.0	17.4
Depreciation / Depletion	437	485	510	484
EBIT	1,050	1,035	1,511	949
Margin (%)	11.2	10.3	14.2	11.5
Net Interest	390	428	425	378
Other Income	68	147	225	82
Profit before Tax	728	754	1,311	653
Margin (%)	7.8	7.5	12.4	7.9
Total Tax	268	262	303	209
Effective tax rate (%)	36.9	34.7	23.1	32.0
Profit after Tax	459	492	1,008	444
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	459	492	1,008	444
YoY gr. (%)	487.8	233.4	132.9	(42.2)
Margin (%)	4.9	4.9	9.5	5.4
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	459	492	1,008	444
YoY gr. (%)	487.8	233.4	132.9	12.7
Margin (%)	4.9	4.9	9.5	5.4
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	459	492	1,008	444
Avg. Shares O/s (m)	118	118	118	118
EPS (Rs)	3.9	4.2	8.6	3.8

Source: Company Data, PL Research

Key Financial Metrics

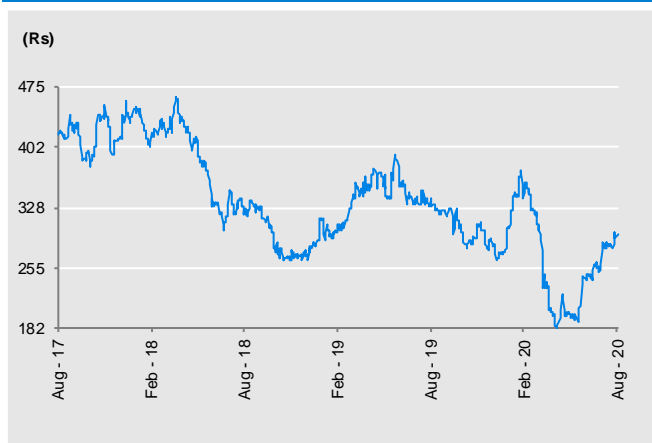
Y/e Mar	FY20	FY21E	FY22E	FY23E
Per Share(Rs)				
EPS	23.4	20.9	23.3	27.9
CEPS	39.4	38.0	40.5	45.9
BVPS	145.5	166.8	189.1	216.0
FCF	38.6	30.5	48.6	54.6
DPS	2.0	1.0	1.0	1.0
Return Ratio(%)				
RoCE	16.9	14.5	14.6	16.5
ROIC	13.8	12.4	12.5	15.1
RoE	17.0	13.4	13.1	13.8
Balance Sheet				
Net Debt : Equity (x)	0.4	0.4	0.1	(0.1)
Net Working Capital (Days)	3	8	8	8
Valuation(x)				
PER	12.3	13.7	12.3	10.3
P/B	2.0	1.7	1.5	1.3
P/CEPS	7.3	7.5	7.1	6.2
EV/EBITDA	5.9	6.3	5.5	4.3
EV/Sales	1.0	1.1	0.9	0.7
Dividend Yield (%)	0.7	0.3	0.3	0.3

Source: Company Data, PL Research

Key Operating Metrics

Y/e Mar	FY20	FY21E	FY22E	FY23E
Volume (mn te)-Cement	9	9	9	10
Cement Realisation (Rs/te)	4,418	4,341	4,369	4,420
EBITDA (Rs/ te)	764	740	705	705
RM cost (Rs/ te)	1,198	1,233	1,226	1,225
Power, Oil & Fuel (Rs/ te)	1,003	938	914	929
Freight Charges (Rs/ te)	920	937	947	956

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	09-Jul-20	BUY	350	281
2	16-Jun-20	BUY	350	238
3	21-May-20	BUY	340	206
4	09-Apr-20	Hold	16,680	16,064
5	29-Jan-20	Accumulate	425	370
6	03-Jan-20	Accumulate	376	306
7	04-Nov-19	Accumulate	380	308
8	03-Oct-19	Accumulate	380	301

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	ACC	BUY	1,505	1,335
2	Ambuja Cement	BUY	235	201
3	Coal India	Hold	155	130
4	Heidelberg Cement India	Accumulate	191	173
5	Hindalco Industries	BUY	180	165
6	Hindustan Zinc	Accumulate	200	183
7	Jindal Steel & Power	BUY	215	172
8	JK Lakshmi Cement	BUY	350	281
9	JSW Steel	Reduce	160	204
10	NMDC	Accumulate	87	86
11	Shree Cement	Hold	19,000	22,452
12	Steel Authority of India	Reduce	25	37
13	Tata Steel	Reduce	250	345
14	The Ramco Cements	Hold	600	646
15	Ultratech Cement	BUY	4,675	4,136

PL's Recommendation Nomenclature (Absolute Performance)

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

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Prabhudas Lilladher Pvt. Ltd.

3rd Floor, Sadhana House, 570, P. B. Marg, Worli, Mumbai-400 018, India | Tel: (91 22) 6632 2222 Fax: (91 22) 6632 2209

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