

10 August 2020

JK Lakshmi Cement

Expansion continues on hold; maintaining a Buy

Rating: **Buy**

Target Price: ₹370

Share Price: ₹286

The lockdown hit JK Lakshmi's Q1 performance. Its revenue/EBITDA/PAT fell 21%/15.6%/36%. Management's focus on delevering continues; it is keeping on hold its expansion in the North. The East and West continue to suffer from cities being locked down; pockets in the North are also locked down. The migrant labour issue resolution, firm prices, rising institutional demand, fixed-cost savings and the 10MW WHRS at Sirohi will help its performance. We retain our Buy call, with a ₹370 target (₹325 earlier).

Lockdown curtailed volumes. The high Covid-impacted West and frequent local lockdowns in the East pushed cement volumes down 18% y/y. Higher clinker sales, weak prices in the East and lower RMC revenue led realisation/ton to dip 3.3% y/y. Management expects FY21 volumes to be flat y/y (subject to the underlying risk of frequent lockdowns) and prices to be firm though with seasonal dips. We expect volumes to decline 3.7% in FY21 and grow 5.3% in FY22.

EBITDA/ton higher on cost optimisation. Several cost-optimisation measures, low-cost petcoke inventory and ₹200m saved in BCG expenses (from a year ago) led to EBITDA/ton growing 3.3% y/y to ₹752 (₹729 a year ago, ₹820 the quarter prior). EBITDA declined 16% y/y to ₹1.4bn. Higher clinker sales and the exposure to the East will keep the EBITDA/ton lower than its Northern peers. Management said its 10MW WHRS at Sirohi would commence by Q2 FY22, saving ₹200m a year. We expect EBITDA/ton of ₹631 and ₹715 in FY21 and FY22, respectively.

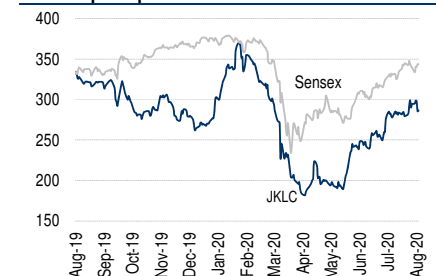
Outlook, Valuation. Management is still keeping its proposed 2.5m-ton capacity expansion in the North on hold. The ramping-up of its Cuttack GU suffered from the lockdown. Gross debt (standalone) was ₹15bn. Against ₹1.2bn debt, the company availed of the moratorium, and talked about repaying ₹2bn debt each in FY21 and FY22. We retain our Buy recommendation, with a target of ₹370, on 7x FY22e EV/EBITDA. **Risks:** Extension of the lockdown; rise in fuel prices.

Key data	JKLC IN / JKLC BO
52-week high / low	₹389 / 180
Sensex / Nifty	38041 / 11214
3-m average volume	\$1.7m
Market cap	₹34bn / \$449.9m
Shares outstanding	118m

Shareholding pattern (%)	Jun'20	Mar'20	Dec'19
Promoters	46.2	46.2	45.9
- of which, Pledged	-	-	-
Free float	53.8	53.8	54.1
- Foreign institutions	10.4	10.6	10.5
- Domestic institutions	20.0	19.0	18.7
- Public	23.4	24.2	24.8

Estimates revision (%)	FY21e	FY22e
Sales	4	-2
EBITDA	37	8
PAT	169	21

Relative price performance



Source: Bloomberg

Key financials (YE Mar)	FY18	FY19	FY20	FY21e	FY22e
Sales (₹ m)	34,122	38,823	40,435	39,834	43,053
Net profit (₹ m)	840	796	2,655	1,878	2,879
EPS (₹)	7.1	6.8	22.6	16.0	24.5
PE (x)	64.9	51.4	8.7	17.9	11.7
EV / EBITDA (x)	17.3	13.1	5.2	7.6	5.5
EV / ton (\$)	87.1	66.8	39.5	48.2	42.0
RoE (%)	5.9	5.3	14.5	10.4	14.1
RoCE (%)	5.3	5.3	10.2	7.7	10.4
Dividend yield (%)	0.2	0.2	1.3	0.2	0.2
Net gearing (x)	1.1	0.9	0.7	0.5	0.1

Source: Company, Anand Rathi Research

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Quick Glance – Financials and Valuations

Fig 1 – Income statement (₹ m)

Year-end: Mar	FY18	FY19	FY20	FY21e	FY22e
Sales volume (m tons)	8.5	9.7	9.2	8.9	9.4
Net revenues	34,122	38,823	40,435	39,834	43,053
Growth (%)	17.2	13.8	4.2	-1.5	8.1
Direct costs	24,468	26,908	25,128	25,497	27,230
SG&A	5,540	7,765	8,584	8,732	9,136
EBITDA	4,114	4,150	6,724	5,605	6,687
EBITDA margins (%)	12.1	10.7	16.6	14.1	15.5
- Depreciation	1,793	1,794	1,884	2,005	2,047
Other income	681	572	501	478	474
Interest expenses	1,975	1,883	1,644	1,395	1,001
PBT	1,027	1,044	3,697	2,683	4,112
Effective tax rate (%)	18	24	31	30	30
+ Associates / (Minorities)					
Net income	840	796	2,352	1,878	2,879
Adjusted income	840	796	2,655	1,878	2,879
WANS	118	118	118	118	118
FDEPS (₹ / sh)	7.1	6.8	22.6	16.0	24.5
FDEPS growth (%)	2.4	-5.2	233.7	-29.3	53.3

Fig 3 – Cash-flow statement (₹ m)

Year-end: Mar	FY18	FY19	FY20	FY21e	FY22e
PBT	1,027	1,044	3,697	2,683	4,112
+ Non-cash items	1,793	1,794	1,884	2,005	2,047
Oper. prof. before WC	2,820	2,838	5,580	4,687	6,159
- Incr. / (decr.) in WC	-588	-2,657	1,132	-57	-1,329
Others incl. taxes	291	272	612	805	1,234
Operating cash-flow	3,116	5,223	3,837	3,940	6,255
- Capex (tang. + intang.)	1,695	2,079	939	900	750
Free cash-flow	1,421	3,144	2,897	3,040	5,505
Acquisitions					
- Div. (incl. buyback & taxes)	106	106	355	59	59
+ Equity raised	-	-	-	-	-
+ Debt raised	-1,412	-3,727	-1,358	-2,800	-5,500
- Fin investments	-151	-745	645	-	-
- Misc. (CFI + CFF)	28	-8	405	-	-
Net cash-flow	26	64	134	181	-54

Source: Company, Anand Rathi Research

Fig 5 – Price movement


Source: Bloomberg

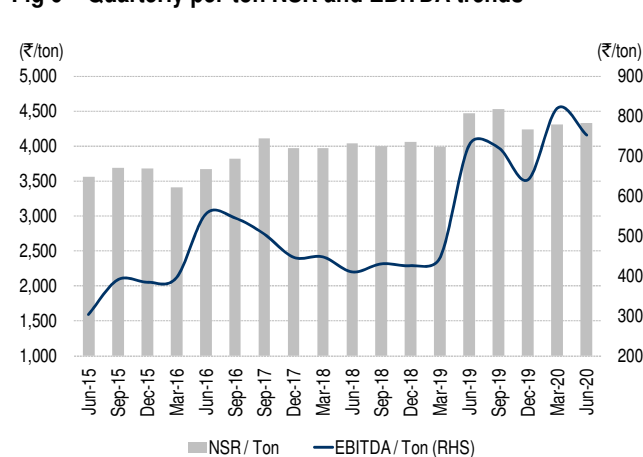
Fig 2- Balance sheet (₹ m)

Year-end: Mar	FY18	FY19	FY20	FY21e	FY22e
Share capital	589	589	589	589	589
Net worth	14,532	15,227	17,127	18,946	21,766
Debt	21,172	17,446	16,087	13,287	7,787
Minority interest					
DTL / (Assets)	-200	-220	205	205	205
Capital employed	35,505	32,452	33,419	32,438	29,758
Net tangible assets	27,912	26,334	27,994	28,258	27,012
Net intangible assets	17	51	38	38	38
Goodwill	-	-	-	-	-
CWIP (tang. & intang.)	2,281	4,111	1,519	150	100
Investments (strategic)	3,539	3,573	3,673	3,673	3,673
Investments (financial)	4,409	3,629	4,174	4,174	4,174
Curr. assets (ex cash)	6,415	6,456	7,786	7,887	9,139
Cash	116	180	314	495	441
Current liabilities	9,184	11,882	12,080	12,238	14,819
Working capital	-2,769	-5,426	-4,294	-4,351	-5,680
Capital deployed	35,505	32,452	33,419	32,438	29,758
Contingent liabilities	515	1,533	-	-	-

Fig 4 – Ratio analysis

Year-end: Mar	FY18	FY19	FY20	FY21e	FY22e
P/E (x)	64.9	51.4	8.7	17.9	11.7
EV / EBITDA (x)	17.3	13.1	5.2	7.6	5.5
EV / Sales (x)	2.1	1.4	0.9	1.1	0.9
P/B (x)	3.7	2.7	1.3	1.8	1.5
RoE (%)	5.9	5.3	14.5	10.4	14.1
RoCE (%) - after tax	5.3	5.3	10.2	7.7	10.4
DPS (₹ / sh)	0.8	0.8	2.5	0.5	0.5
Dividend payout (%) - incl. DDT	12.7	13.4	15.1	3.1	2.0
Net debt / equity (x)	1.1	0.9	0.7	0.5	0.1
Working capital (days)	-29.6	-51.0	-38.8	-39.9	-42.9
EV / ton (\$)	87.1	66.8	39.5	48.2	42.0
NSR / ton (₹)	4,005	4,020	4,382	4,482	4,602
EBITDA / ton (₹)	483	430	729	631	715
Volumes	8.52	9.66	9.23	8.89	9.36
CFO : PAT %	371.2	656.5	144.5	209.8	217.3

Source: Company, Anand Rathi Research

Fig 6 – Quarterly per-ton NSR and EBITDA trends


Source: Company

Other key highlights

Revenue growth

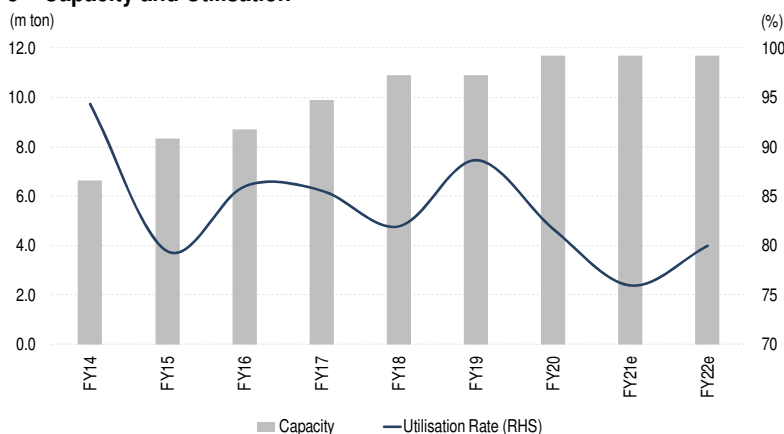
JK Lakshmi's Q1 revenue declined 21% y/y to ₹8.3bn on the lockdown-hit realisations dipping 3.1% y/y to ₹4,331/ton, and volumes 18% y/y to 1.91m tons. Its RMC revenue declined to ₹120m, vs, ₹400m-450m generally. Prices in July declined across regions on the monsoon commencing and demand has been impacted by the frequent local lockdowns in the East. However, management expects volumes in FY21 to be similar to those in FY20.

Fig 7 – Revenue and Revenue growth



Source: Company, Anand Rathi Research

Fig 8 – Capacity and Utilisation



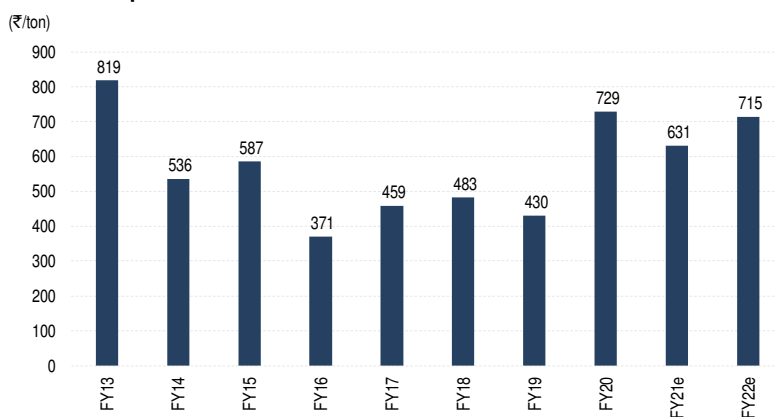
Source: Company, Anand Rathi Research

Operating performance

Absolute EBITDA slid 16% y/y to ₹1.4bn. EBITDA/ton, though, grew 3.3% y/y to ₹752 due to the 42% lower power & fuel cost/ton (low-cost petcoke inventory) and 46%/5% per-ton lower y/y raw material/freight costs. Other expenses declined 42% y/y (on an absolute basis) on various cost-optimisation measures and low travelling/advertising expenses. Also other expenses do not include ₹200m a year ago of BCG expenses.

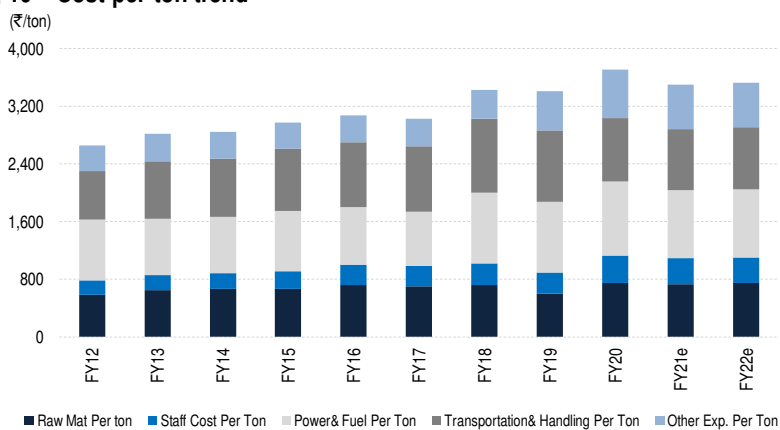
Adj. profit declined 36% y/y to ₹444m on falling operating profit and 7% y/y higher depreciation cost, partially offset by 6% y/y lower interest expense and 33.3% y/y higher other income.

Fig 9 – EBITDA-per-ton trend



Source: Company, Anand Rathi Research

Fig 10 – Cost-per-ton trend



Source: Company, Anand Rathi Research

Result Highlights

Fig 11 – Quarterly trend

(₹ m)	Q3 FY18	Q4 FY18	Q1 FY19	Q2 FY19	Q3 FY19	Q4 FY19	Q1 FY20	Q2 FY20	Q3 FY20	Q4 FY20	Q1 FY21	% Y/Y	% Q/Q
Sales	8374	8970	9234	8514	9350	11725	10419	9355	10050	10612	8252	(20.8)	(22.2)
EBITDA	943	1013	939	916	983	1312	1698	1487	1519	2020	1433	(15.6)	(29.1)
EBITDA margins (%)	11.3	11.3	10.2	10.8	10.5	11.2	16.3	15.9	15.1	19.0	17.4	107bps	-167bps
EBITDA per ton (₹)	447	448	410	431	426	446	729	720	641	820	752	3.3	(8.2)
Interest	514	480	451	493	474	460	402	390	428	425	378	(5.9)	(11.0)
Depreciation	448	459	446	452	451	446	453	437	485	510	484	6.9	(5.0)
Other income	146	264	110	150	139	168	61	68	147	225	82	33.3	(63.7)
PBT	127	338	152	121	198	574	603	727	754	1,311	653	8.4	(50.2)
Tax	41	(1)	14	43	50	142	209	268	262	303	209	0.0	(31.2)
Adj. PAT	86	338	137	78	148	432	696	459	492	1,007	444	(36.2)	(55.9)

Source: Company, Anand Rathi Research

Fig 12 – Per-ton analysis

(₹)	Q3 FY18	Q4 FY18	Q1 FY19	Q2 FY19	Q3 FY19	Q4 FY19	Q1 FY20	Q2 FY20	Q3 FY20	Q4 FY20	Q1 FY21	%Y/Y	%Q/Q
Realisations	3,969	3,969	4,038	4,003	4,056	3,989	4,472	4,534	4,240	4,305	4,331	(3.1)	0.6
EBITDA	447	448	410	431	426	446	729	720	641	820	752	3.3	(8.2)
Sales volumes (m tons)	2.1	2.3	2.3	2.1	2.3	2.9	2.3	2.1	2.4	2.5	1.9	(18.2)	(22.7)
Costs													
Raw material	699	707	689	742	726	716	726	972	701	774	392	(45.9)	(49.3)
Purchase of traded goods	251	249	176	181	180	190	297	432	410	403	224	(24.4)	(44.3)
Power & Fuel	971	971	940	1,059	969	980	958	1,198	1,004	995	558	(41.8)	(43.9)
Staff	261	268	276	309	284	260	343	425	374	377	343	(0.1)	(9.0)
Freight	1,025	1,052	1,074	950	996	939	914	893	870	868	870	(4.8)	0.2
Other expenditure	385	366	372	368	424	562	669	564	626	658	383	(42.8)	(41.9)

Source: Company, Anand Rathi Research

Concall Highlights

Operational and Financial highlights

- Q1 FY21 cement sale volumes (incl. clinker) declined 18.2% y/y to 1.91m tons (0.3m tons of clinker). Cement and clinker production for the quarter were respectively 1.43m tons and 0.92m tons. (Consolidated sales volumes were 2.07m tons.) RMC revenue for Q1 FY21 was ₹120m vs ₹400m-450m generally.
- Of ₹8.3bn revenue, ₹290m came from RMC/POP/AAC blocks/solar power, etc. As there was no pent-up demand for such items, the impact of the lockdown was greater.
- Petcoke cost/ton was ₹6,768 (₹7,800 a year ago, ₹7,000 the quarter prior).
- Other expenses declined on various cost-optimisation measures: low travelling and advertising expenses, and without the ₹200m incurred a year ago on the BCG.
- Interest cost declined 6% on reduced debt. Further, the company availed of the moratorium on ₹1.2bn debt, resulting in reduced liability of ₹650m.
- The difference in trade-nontrade prices in Q1 FY21 was ₹30 in the East and ₹70-80 in the North. Trade sales were 61% (59% a year ago). Blended cement sales volumes were 78%.
- The cost of debt is 8.3%; the return on investment, 9.75%. ICDs (given) are of ₹400m, due to mature in Aug'20.

Debt and Capex

- The present circumstances have compelled management to keep on hold its proposed 2.5m-ton cement expansion in the North.
- Standalone gross debt on 30th Jun'20 was ₹15bn; consolidated net debt was ₹20.5bn. Management talked of debt repayment of ₹2bn each in FY21 and FY22. The cash balance was ₹7bn (₹4.5bn at the end of the previous quarter).

Outlook

- The West (Gujarat) was more severely affected by the greater number of Covid-19 cases and spread. Odisha and Chattisgarh were affected by heavy rainfall. The East region, too, has been hit by frequent local lockdowns. There is also the possibility of an increase in cases in rural areas, which could keep demand contracted. Management expects its FY21 cement sales volumes to be flat y/y.
- Government incentives to Udaipur Cement's will be exhausted in FY22. Its Jul'20 capacity utilisation was the same as a year ago. Management does not expect any major change in prices except for seasonal dips.

Valuations

Its operations in the high-realisation Northern market and ramping up of Odisha GU would aid JK Lakshmi's volumes and realisations. Lower prices in Chhattisgarh, however (~57% of sales in the East), and subdued demand in Gujarat/Maharashtra would be concerns. The strategy to focus on de-levering before expanding capacity, in the current economic environment, would help. Further, its constant efforts to rationalise logistical costs, its greater petcoke consumption and proposed 10MW WHRS at Sirohi would boost its operating performance.

The stock quotes at 5.5x FY22e EV/EBITDA. We retain our Buy rating, with a higher target price of ₹370, on 7x FY22e EV/EBITDA, reflecting an EV/ton of \$53.

Change in estimates

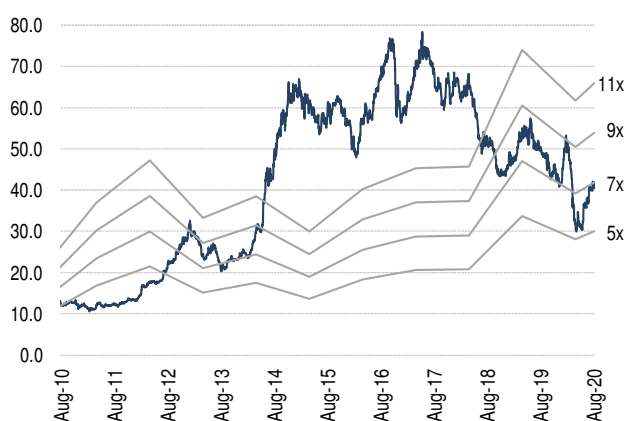
We have broadly maintained our revenue estimates. We have raised our FY21e EBITDA and PAT 37% and 169%, respectively, and 8% and 21% for FY22.

Fig 13 – Change in estimates

	New		Old		Variance	
	FY21e	FY22e	FY21e	FY22e	% Change	% Change
Sales (₹ m)	39,834	43,053	38,339	43,809	4	-2
EBITDA (₹ m)	5,605	6,687	4,091	6,181	37	8
PAT (₹ m)	1,878	2,879	699	2,371	169	21

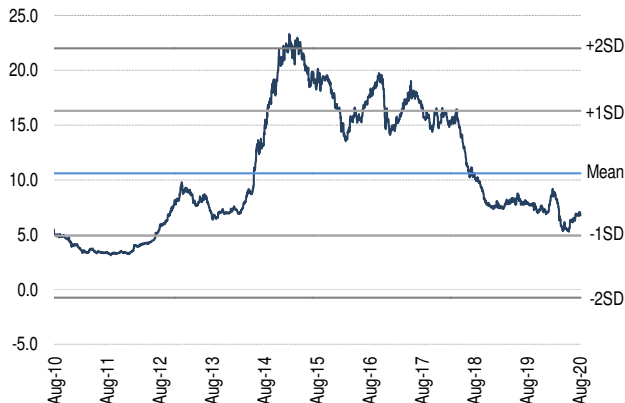
Source: Anand Rathi Research

Fig 14 – EV/EBITDA band, one-year-forward



Source: Anand Rathi Research

Fig 15 – EV/EBITDA: Standard deviation, one-year-forward



Source: Anand Rathi Research

Fig 16 – Peer comparison – valuations

	CMP (₹)	P/E		EV / EBITDA		EV / ton (\$)	
		FY21e	FY22e	FY21e	FY22e	FY21e	FY22e
JK Lakshmi	286	17.9	11.7	7.6	5.5	48	42
Birla Corp.	653	16.6	13.0	8.1	7.0	64	53
Dalmia Bharat	769	NA	NA	8.1	7.2	99	88
Deccan Cement	246	11.5	7.5	5.2	3.3	19	16
Heidelberg Cement	183	18.8	13.7	9.1	7.0	83	77
India Cement	117	NA	30.4	12.9	9.4	58	59
JK Cement	1,600	33.3	21.2	15.7	11.4	124	119
Mangalam Cement	202	14.6	8.2	7.0	5.0	38	35
NCL Indus	91	11.1	7.8	5.4	4.5	31	31
Orient Cement	71	25.3	12.7	7.5	5.7	41	38
Prism Johnson	46	NA	28.1	10.7	7.7	51	49
Ramco Cement	688	38.6	25.4	21.3	14.9	126	121
Sanghi Industries	25	NA	14.0	11.9	7.7	42	41

Source: Bloomberg, Anand Rathi Research

Risk

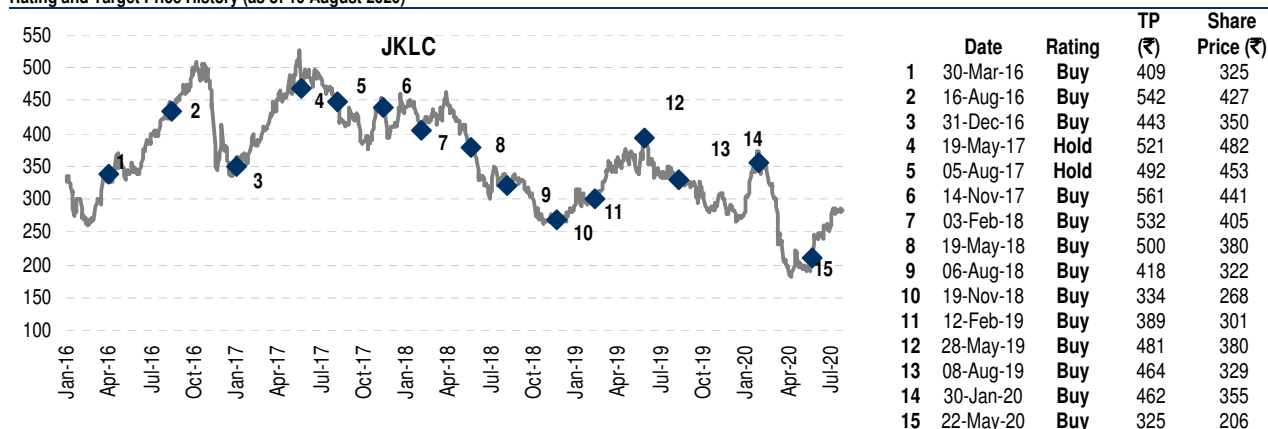
- Extension of the lockdown
- Rising prices of pet-coke and diesel.

Appendix

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