

View: Fair valuation; Downgrade to Accumulate

- JKLC reported mix set of result. Revenue, APAT and volumes were above estimates however, EBITDA/tn below estimates.
- JKLC posted 20.8%/ 15.6%/ 36.2% YoY de-growth in revenue/ EBITDA/ APAT to Rs8.3 bn/ Rs1.4 bn/ Rs444 mn in Q1FY21 due to 18.0% YoY de-growth in volumes coupled with decline in realization by 3.4% YoY (+0.3% QoQ).
- We expect 1.7%/ 2.2%/ (1.0%) revenue/ EBITDA/ APAT CAGR over FY20-22E led by (8.3%)/ 11.2% volume growth and (0.5%)/ 2.0% cement realization growth in FY21E/ FY22E.
- We increase our revenue/ EBITDA/ APAT estimate by 8.5%/ 18.8%/ 56.1% for FY21E considering Q1FY21 results. However, we broadly maintain our FY22E estimates. We factor JKLC to start doing capex by Q3FY21E for brown-field expansions to capture growth in demand. Considering, stock has run up ~39% since our Q4FY20 result update dated 21 May'20 we downgrade to Accumulate with a revised SOTP of Rs334 based on (6.5x standalone FY22E EV/EBITDA, 50% of FY22E Capital WIP and JKLC's 72.5% stake in Udaipur Cement Works at 30% holding discount).

EBITDA/tn - up 2.9%/ -8.5% YoY/ QoQ

Lower than anticipated realization (-3.4% YoY/ +0.3% QoQ to Rs4,319/tn), higher than estimated volume (-18.0% YoY/ -22.5% QoQ to 1.91mt) and lower than estimated operating cost (-4.7% YoY/ +2.4% QoQ to Rs3,569/tn) helped JKLC to report EBITDA/tn of Rs750 (+2.9% YoY/ -8.5 QoQ).

Other update

JKLC expects demand to return to normal level from Q3FY21E driven by rural demand and infra demand as labour is expected to return post Diwali. Cement prices have weakened in Jul'21 and is further expected to decline due to monsoon. JKLC will announce capacity expansion (1.5 mtpa clinker and 2.5 mtpa grinding unit) by Q3FY21E, most likely in North region which will aid volume growth. Net Debt reduced by Rs2 bn QoQ to Rs8 bn and management expects it to reduce by Rs2 bn each in FY21E/FY22E.

Q1FY21 Result (₹ Mn)

Particulars	Q1FY21	Q1FY20	YoY (%)	Q4FY20	QoQ (%)
Revenue	8,252	10,419	(20.8)	10,612	(22.2)
Total Expense	6,818	8,721	(21.8)	8,592	(20.6)
EBITDA	1,433	1,698	(15.6)	2,020	(29.1)
Depreciation	484	453	6.9	510	(5.0)
EBIT	949	1,245	(23.8)	1,511	(37.2)
Other Income	82	59	38.5	225	(63.7)
Interest	378	399	(5.3)	425	(11.0)
EBT	653	603	8.4	1,311	(50.2)
Tax	209	209	0.0	303	(31.2)
RPAT	444	394	12.8	1,008	(55.9)
APAT	444	696	(36.2)	988	(55.1)
			(bps)		(bps)
Gross Margin (%)	38.1	35.4	268	38.7	(61)
EBITDA Margin (%)	17.4	16.3	107	19.0	(167)
NPM (%)	5.4	3.8	160	9.5	(411)
Tax Rate (%)	32.0	34.6	(266)	23.1	883
EBIT Margin (%)	11.5	12.0	(45)	14.2	(273)

CMP	Rs 287
Target / Upside	Rs 334 / 16%
BSE Sensex	38,047
NSE Nifty	11,214

Scrip Details

Equity / FV	Rs 589mn / Rs 5
Market Cap	Rs 34bn
	US\$ 450mn
52-week High/Low	Rs 388/Rs 180
Avg. Volume (no)	4,69,389
NSE Symbol	JKLAKSHMI
Bloomberg Code	JKLC IN

Shareholding Pattern Jun'20(%)

Promoters	46.2
MF/Banks/FIs	20.0
FIs	10.4
Public / Others	23.4

Valuation (x)

	FY20A	FY21E	FY22E
P/E	12.8	17.4	13.1
EV/EBITDA	6.5	7.4	6.5
ROE (%)	16.3	10.8	13.0
RoACE (%)	13.6	10.6	11.9

Estimates (₹ mn)

	FY20A	FY21E	FY22E
Revenue	40,435	36,911	41,859
EBITDA	6,724	5,981	7,024
PAT	2,636	1,938	2,583
EPS (Rs.)	22.4	16.5	22.0

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Exhibit 1: Actual V/s DART estimates (Rs mn)

Particulars	Actual	DART Est	% Variance	Comments
Revenue (Rs mn)	8,252	6,911	19.4	+26.2%/ -5.4% higher/ lower than estimated volume/ realization
EBITDA (Rs mn)	1,433	1,237	15.9	-5.4%/ -4.8% lower than estimated realization / cost
EBITDA%	17.4	17.9	(52)	
PAT (Rs mn)	444	298	48.8	Better operating efficiency

Source: DART, Company

Exhibit 2: Change in estimates - Upgrade FY21E whereas maintain FY22E estimates

(Rs mn)	FY21E			FY22E		
	New	Old	% chg	New	Old	% chg
Net revenues	36,911	34,023	8.5	41,859	41,649	0.5
EBIDTA	5,981	5,033	18.8	7,024	6,806	3.2
EBIDTA (%)	16.2%	14.8%	141	16.8%	16.3%	44
Adj. Net Profit	1,938	1,241	56.1	2,583	2,416	6.9
EPS (Rs)	16.5	10.5	56.1	22.0	20.5	6.9

Source: DART, Company

Exhibit 3: Volume, Realization & Cost/tn Analysis

(Rs)	Q1FY21	Q1FY20	YoY (%)	Q4FY20	QoQ (%)	FY20	FY19	YoY (%)
Volume(MT)	1.91	2.33	(18.0)	2.47	(22.5)	9.18	9.67	(5.0)
Realization/tn (Rs)	4,319	4,472	(3.4)	4,305	0.3	4,404	4,017	9.6
EBITDA/tn (Rs)	750	729	2.9	820	(8.5)	732	429	70.6
Cost/tn (Rs)	3,569	3,743	(4.7)	3,485	2.4	3,671	3,587	2.3
Raw Material Cost/tn (Rs)	1,118	1,016	10.1	958	16.7	961	956	0.5
Employee Expenses/tn (Rs)	423	332	27.5	308	37.2	336	272	23.9
Power and Fuels/tn (Rs)	688	958	(28.2)	813	(15.4)	919	952	(3.4)
Freight Expenses/tn (Rs)	868	914	(5.1)	868	(0.1)	890	986	(9.7)
Other expenses/tn (Rs)	472	523	(9.8)	538	(12.3)	565	422	33.8

Source: Company, DART

Exhibit 4: % of Revenue

Particulars	Q1FY21	Q1FY20	YoY (%)	Q4FY20	QoQ (%)	FY20	FY19	YoY (%)
Raw Material Cost	25.9	22.7	317	22.2	364	21.8	23.8	(197)
Employee Expenses	9.8	7.4	238	7.2	263	7.6	6.8	88
Power and Fuels	15.9	21.4	(550)	18.9	(295)	20.9	23.7	(282)
Freight Expenses	20.1	20.4	(35)	20.2	(8)	20.2	24.6	(434)
Other expenses	10.9	11.7	(77)	12.5	(158)	12.8	10.5	231

Source: Company, DART

Exhibit 5: Q1FY21 performance (standalone)

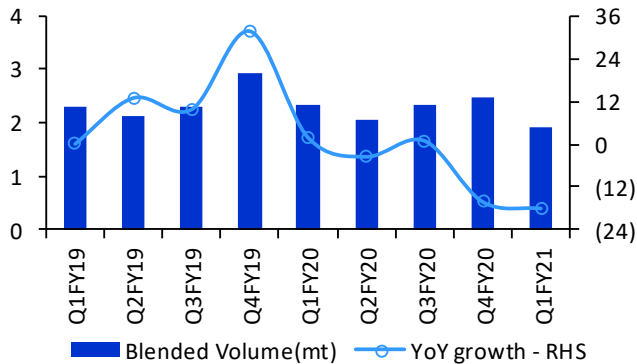
(Rs mn)	Q1FY21	Q1FY20	YoY (%)	Q4FY20	QoQ (%)	FY20	FY19	YoY (%)
Revenue	8,252	10,419	(20.8)	10,612	(22.2)	40,435	38,823	4.2
Raw Material Cost	2,136	2,367	(9.7)	2,361	(9.5)	8,822	9,236	(4.5)
Employee Expenses	808	773	4.6	760	6.4	3,089	2,625	17.7
Power and Fuel	1,315	2,233	(41.1)	2,005	(34.4)	8,439	9,198	(8.3)
Freight Cost	1,658	2,130	(22.2)	2,140	(22.5)	8,176	9,533	(14.2)
Other expenses	901	1,218	(26.0)	1,326	(32.0)	5,186	4,082	27.1
Total Expenditure	6,818	8,721	(21.8)	8,592	(20.6)	33,711	34,673	(2.8)
PBIDT (Excl. OI)	1,433	1,698	(15.6)	2,020	(29.1)	6,724	4,150	62.0
Other Income	82	59	38.5	225	(63.7)	495	565	(12.4)
Depreciation	484	453	6.9	510	(5.0)	1,883	1,794	5.0
EBIT	1,031	1,304	(20.9)	1,736	(40.6)	5,335	2,921	82.7
Interest	378	399	(5.3)	425	(11.0)	1,638	1,877	(12.7)
PBT(Before Exceptional Item)	653	905	(27.8)	1,311	(50.2)	3,697	1,044	254.0
E.O	0	(302)	(100.0)	0	-	(302)	0	-
PBT(After Exceptional Item)	653	603	8.4	1,311	(50.2)	3,395	1,044	225.1
Tax	209	209	0.0	303	(31.2)	1,042	249	319.1
RPAT	444	394	12.8	1,008	(55.9)	2,352	796	195.7
Adjustment	0	302	(100.0)	(19)	(100.0)	283	0	-
APAT	444	696	(36.2)	988	(55.1)	2,636	796	231.3
EPS (Rs)	3.77	5.92	(36.2)	8.40	(55.1)	22.39	6.76	231.3
			<i>bps</i>		<i>bps</i>			<i>bps</i>
EBIDTA Margin (excl. O.I.)	17.4	16.3	107	19.0	(167)	16.6	10.7	594
NPM (%)	5.4	6.68	(130)	9.3	(393)	6.5	2.0	447
Tax Rate (%)	32.0	34.6	(266)	23.1	883	30.7	23.8	689

Source: DART, Company

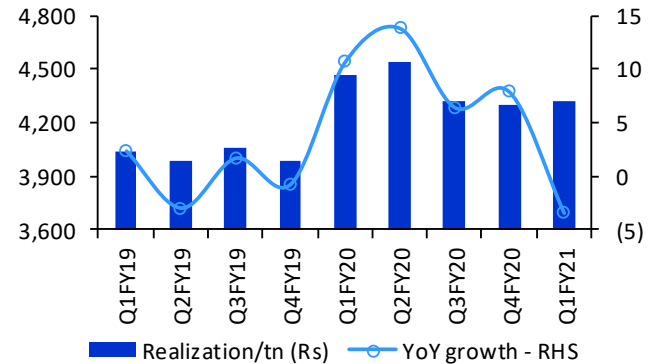
Exhibit 6: Valuation

Particulars	(Rs mn)
Assumed EV/EBITDA multiple (x)	6.5
EBITDA (FY22E)	7,024
EV	45,659
Less: Net Debt (FY22E)	12,287
Mcap	33,372
Shares o/s (mn)	118
(a) Value/share (Rs)	284
Udaipur Cement Works Mcap	3,229
JKLC's stake (72.54%) value in Udaipur Cement Works	2,343
Holding company discount (%)	30
JKLC's stake value in Udaipur Cement Works post discount	1,640
(b) Value/share (Rs)	13.9
50% of FY22E Capital WIP	4,259
(c) Value/share (Rs)	36.2
Target price (Rs) (a+b)	333.7
CMP (Rs)	286.5
Up/(down)side (%)	16.5

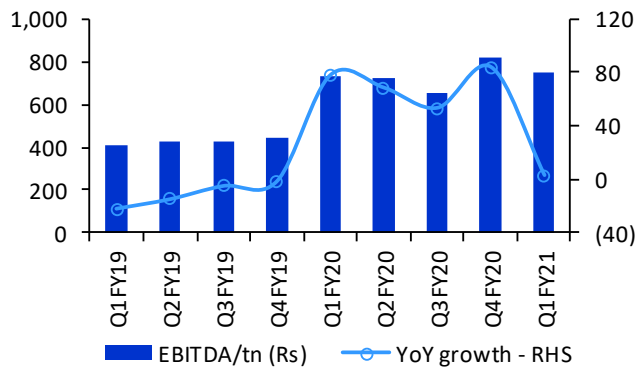
Source: DART, Company

Exhibit 7: Volume (mt)


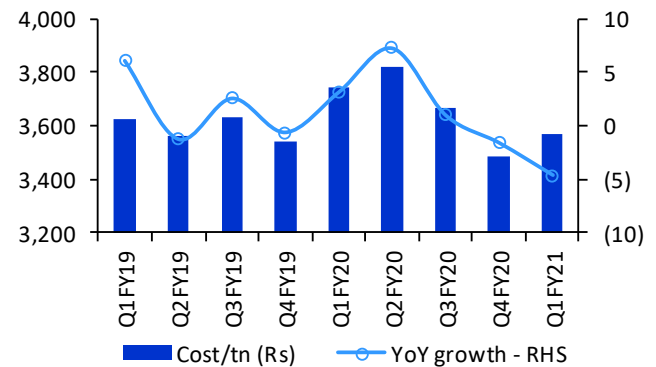
Source: DART, Company

Exhibit 8: Realization/tn(Rs)


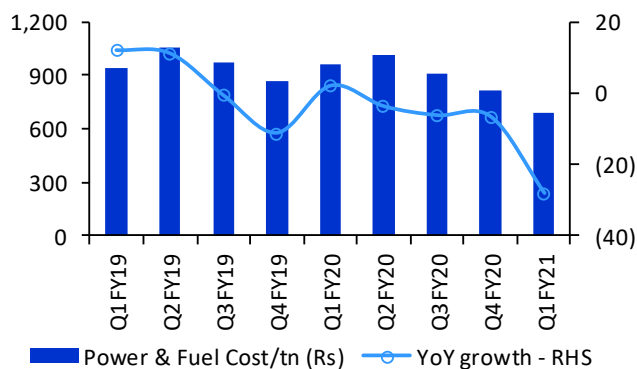
Source: DART, Company

Exhibit 9: EBITDA/tn (Rs)


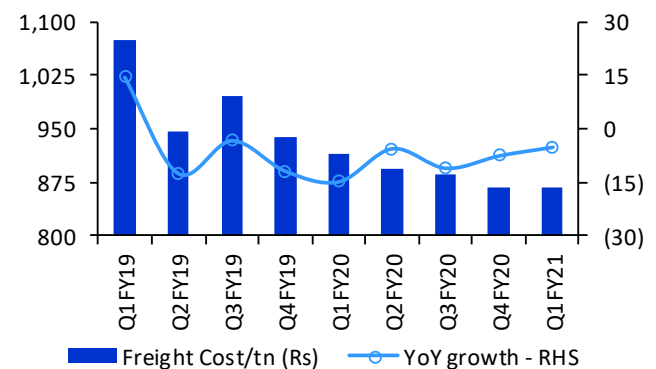
Source: DART, Company

Exhibit 10: Cost/tn (Rs)


Source: DART, Company

Exhibit 11: Power & Fuel Cost/tn (Rs)


Source: DART, Company

Exhibit 12: Freight Cost/tn (Rs)


Source: DART, Company

Profit and Loss Account

(Rs Mn)	FY19A	FY20A	FY21E	FY22E
Revenue	38,823	40,435	36,911	41,859
Total Expense	34,673	33,711	30,931	34,835
COGS	26,908	25,127	23,203	26,153
Employees Cost	2,690	3,120	3,166	3,483
Other expenses	5,075	5,464	4,562	5,199
EBIDTA	4,150	6,724	5,981	7,024
Depreciation	1,794	1,884	2,010	2,091
EBIT	2,356	4,840	3,970	4,933
Interest	1,883	1,644	1,571	1,662
Other Income	572	501	369	419
Exc. / E.O. items	0	(302)	0	0
EBT	1,044	3,395	2,768	3,690
Tax	249	1,042	830	1,107
RPAT	796	2,352	1,938	2,583
Minority Interest	0	0	0	0
Profit/Loss share of associates	0	0	0	0
APAT	796	2,636	1,938	2,583

Balance Sheet

(Rs Mn)	FY19A	FY20A	FY21E	FY22E
Sources of Funds				
Equity Capital	589	589	589	589
Minority Interest	0	0	0	1
Reserves & Surplus	14,638	16,538	18,182	20,471
Net Worth	15,227	17,127	18,770	21,059
Total Debt	16,129	14,500	15,430	15,630
Net Deferred Tax Liability	0	205	205	205
Total Capital Employed	31,355	31,831	34,405	36,894

Applications of Funds

Net Block	26,385	28,032	27,369	26,777
CWIP	4,111	1,519	3,519	8,519
Investments	3,573	3,673	3,673	3,673
Current Assets, Loans & Advances	10,486	12,275	11,678	11,137
Inventories	3,117	4,128	3,438	3,899
Receivables	1,066	882	910	1,032
Cash and Bank Balances	180	314	833	524
Loans and Advances	33	433	433	433
Other Current Assets	2,466	2,347	2,144	2,429
Less: Current Liabilities & Provisions	13,199	13,667	11,834	13,212
Payables	5,114	4,685	4,247	4,817
Other Current Liabilities	8,085	8,983	7,587	8,396
<i>sub total</i>				
Net Current Assets	(2,713)	(1,393)	(156)	(2,076)
Total Assets	31,355	31,831	34,405	36,893

E – Estimates

Important Ratios

Particulars	FY19A	FY20A	FY21E	FY22E
(A) Margins (%)				
Gross Profit Margin	30.7	37.9	37.1	37.5
EBIDTA Margin	10.7	16.6	16.2	16.8
EBIT Margin	6.1	12.0	10.8	11.8
Tax rate	23.8	30.7	30.0	30.0
Net Profit Margin	2.0	5.8	5.2	6.2
(B) As Percentage of Net Sales (%)				
COGS	69.3	62.1	62.9	62.5
Employee	6.9	7.7	8.6	8.3
Other	13.1	13.5	12.4	12.4
(C) Measure of Financial Status				
Gross Debt / Equity	1.1	0.8	0.8	0.7
Interest Coverage	1.3	2.9	2.5	3.0
Inventory days	29	37	34	34
Debtors days	10	8	9	9
Average Cost of Debt	10.4	10.7	10.5	10.7
Payable days	48	42	42	42
Working Capital days	(26)	(13)	(2)	(18)
FA T/O	1.5	1.4	1.3	1.6
(D) Measures of Investment				
AEPS (Rs)	6.8	22.4	16.5	22.0
CEPS (Rs)	22.0	38.4	33.6	39.7
DPS (Rs)	0.9	0.9	2.5	2.5
Dividend Payout (%)	13.4	4.0	15.2	11.4
BVPS (Rs)	129.4	145.5	159.5	179.0
RoANW (%)	5.3	16.3	10.8	13.0
RoACE (%)	8.1	13.6	10.6	11.9
RoAIC (%)	7.2	15.4	12.2	14.1
(E) Valuation Ratios				
CMP (Rs)	287	287	287	287
P/E	42.4	12.8	17.4	13.1
Mcap (Rs Mn)	33,712	33,712	33,712	33,712
MCap/ Sales	0.9	0.8	0.9	0.8
EV	46,037	43,728	44,390	45,999
EV/Sales	1.2	1.1	1.2	1.1
EV/EBITDA	11.1	6.5	7.4	6.5
P/BV	2.2	2.0	1.8	1.6
Dividend Yield (%)	0.3	0.3	0.9	0.9
(F) Growth Rate (%)				
Revenue	13.8	4.2	(8.7)	13.4
EBITDA	0.9	62.0	(11.1)	17.5
EBIT	1.5	105.4	(18.0)	24.3
PBT	1.6	225.1	(18.5)	33.3
APAT	(8.8)	231.3	(26.5)	33.3
EPS	(8.8)	231.3	(26.5)	33.3

Cash Flow

(Rs Mn)	FY19A	FY20A	FY21E	FY22E
CFO	6,895	5,413	5,450	6,535
CFI	(785)	(1,586)	(3,163)	(5,523)
CFF	(6,045)	(3,693)	(1,769)	(1,321)
FCFF	4,988	4,489	1,950	35
Opening Cash	116	180	314	833
Closing Cash	180	314	833	524

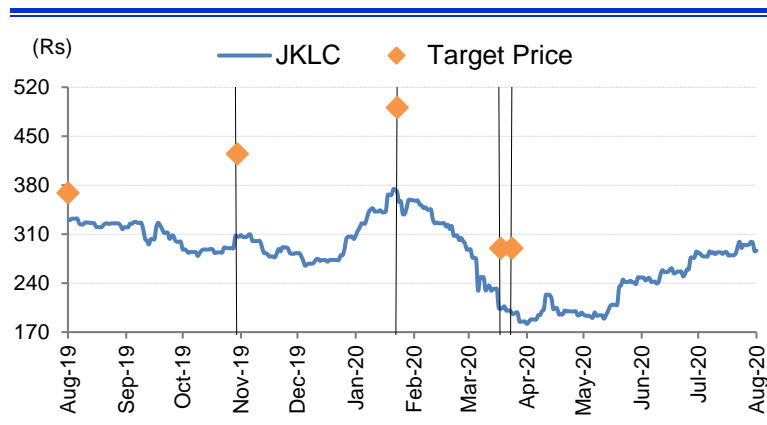
E – Estimates

DART RATING MATRIX

Total Return Expectation (12 Months)

Buy	> 20%
Accumulate	10 to 20%
Reduce	0 to 10%
Sell	< 0%

Rating and Target Price History



Month	Rating	TP (Rs.)	Price (Rs.)
Aug-19	Accumulate	369	332
Nov-19	Buy	425	306
Jan-20	Buy	491	370
Mar-20	Buy	290	203
Mar-20	Buy	290	197

*Price as on recommendation date

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