

Retail Equity Research

JK Lakshmi Cements Ltd

Cement

BSE CODE: 500380

NSE CODE: JKLAKSHMI

Bloomberg CODE: JKLC:IN

SENSEX: 38,220

BUY

12M Investment period

Rating as per Small Cap

CMP Rs.275

TARGET Rs.355

RETURN 29% ↑

(Closing: 20-08-20)

KEY CHANGES:

TARGET ↑

RATING ↑

EARNINGS ↑

Awaited capacity expansion to announce soon...

JK Lakshmi Cement (JKLC) is part of JK group mainly focused in North, West and Eastern regions of India with a consolidated capacity of 13.4MT.

- We upgrade to Buy rating with a revised Target of Rs.355 due to better than expected volumes amid challenges and attractive valuation.
- Q1FY21 revenue de-grew by 20.8%YoY due to 18%YoY decline in volumes (Vs industry de-growth of 38%YoY) on account of Covid-19 led disruption in supply chain.
- EBITDA declined by only 15.6%YoY aided by 110bps improvement in EBITDA margin mainly due to reduction in fuel, freight & other expenses.
- 10MW Waste Heat Recovery (WHR) by 2QFY22 will bring additional cost savings. Debt repayment of ~Rs200p.a will add to earnings growth.
- JKLC is likely to announce a brownfield expansion (1.5MT clinker & 2.5MT grinding) with a capex of Rs.12-14bn in the coming quarter which will trigger for next stage of growth.
- We factor volumes to de-grow by ~7% in FY21 but to grow by 12% in FY22E, expect Revenue/PAT to grow at 2%/6% CAGR over FY20-22E.
- JKLC currently trades at 6.4x 1Yr Fwd EV/EBITDA. We value at 6.5x FY22E EV/EBITDA (2Yr Avg-8.6x).

Covid-19 impacts the volumes but better than industry

JKLC reported revenue de-growth of 20.8%YoY mainly impacted by volume declines (-18%YoY) owing to lock-down restrictions on account of Covid-19. However, the volumes are better than industry (de-growth of ~38%YoY). Blended realisation de-grow by 3.4% YoY due to higher than normal percentage of clinker sales (0.3MT Vs 0.11MTYoY). We remain cautious about the demand outlook in the short-term due to current uncertain situation. We factor ~7%YoY decline in volumes in FY21 but healthy double digit recovery in FY22E supported by revival in economic activities. The much awaited brownfield capacity expansion is likely to be announced in the coming quarter which will support future volume growth. Expect revenue to grow by 2%CAGR over FY20-22E.

Lower fuel cost supports margins despite pressure on realisation

EBITDA margin improved by 110bps to 17.4% mainly due to reduction in costs. On a per ton basis, Fuel/Freight/other expenses declined by 28%/5%/10% YoY while total expenses declined by 4.7%YoY. EBITDA/Ton improved to Rs.750 Vs Rs729YoY. Cement prices have softened in July due to seasonal issues and drop in demand. We expect EBITDA/Ton to be at ~Rs.720 in FY20E. Adverse price movements of cement, fuel and RM prices are the key risks.

Valuation & Outlook

Demand outlook remains uncertain in the short-term but is expected to witness healthy recovery in FY22E. JKLC is likely to announce capacity expansion in its North plant in the coming quarter which will support future volume growth. The stock currently trades at 6.4x 1Yr Fwd EV/EBITDA based on our revised estimates. We value at ~6.5x FY22E EV/EBITDA (2Yr Avg=8.6x) to arrive at a Target of Rs.355 (Rs220 earlier), upgrade to Buy from Accumulate rating.

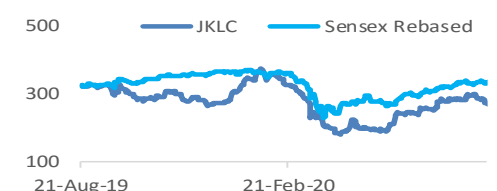
Company Data

Market Cap (Rs.cr)	3231
Enterprise Value (Rs.cr)	3041
Outstanding Shares (cr)	11.8
Free Float	54%
Dividend Yield	1.2%
52 week high Rs.	389
52 week low Rs.	180
6m average volume (cr)	0.04
Beta	0.8
Face value Rs.	5

Shareholding %	Q3FY20	Q4FY20	Q1FY21
Promoters	45.9	46.2	46.2
FII's	10.5	10.6	10.4
MFs/Insti	18.7	19.0	20.0
Public	15.8	16.0	16.5
Others	9.0	8.3	6.9
Total	100	100	98
Promotor pledge	NIL	NIL	0.0%

Price Performance	3 Month	6 Month	6 Month
Absolute Return	31.4%	-15.7%	-15.6%
Absolute Sensex	25.0%	-6.9%	3.4%
Relative Return*	6.5%	-8.8%	-19.0%

*over or under performance to benchmark index



Standalone (cr)	FY20A	FY21E	FY22E
Sales	4,044	3,705	4,191
Growth (%)	4.2	-8.4	13.1
EBITDA	672	613	695
EBITDA Margin (%)	16.6	16.5	16.6
Adj. PAT	265	213	290
Growth (%)	233.7	-19.8	36.2
Adj. EPS	22.6	18.1	24.7
Growth (%)	233.7	-19.8	36.2
P/E	12.2	15.2	11.2
P/B	1.9	1.7	1.5
EV/EBITDA	5.8	5.8	4.7
ROE (%)	16.4	11.8	14.3
D/E	0.9	0.7	0.5

Vincent Andrews
Research Analyst

Quarterly Financials (Consolidated)

Profit & Loss

Rs cr)	Q1FY21	Q1FY20	YoY Growth(%)	Q4FY20	QoQ Growth (%)
Sales	825	1042	-20.8%	1061	-22.2%
EBITDA	143	170	-15.6%	202	-29.1%
EBITDA margins %	17.4%	16.3%	110bps	19.0%	(160bps)
Depreciation	48	45	6.9%	51	-5.0%
EBIT	95	125	-23.8%	151	-37.2%
Interest	38	40	-5.3%	42	-11.0%
Other Income	8	6	38.1%	22	-63.8%
Exceptional Items	0	-30	0.0%	0	0.0%
PBT	65	60	8.3%	131	-50.2%
Tax	21	21	0.0%	30	-31.2%
Share of profit from associates	0	0	0.0%	0	0.0%
Minority interest	0	0	0.0%	0	0.0%
Reported PAT	44	39	12.7%	101	-55.9%
Adjustments	0	30	-100.0%	0	0.0%
Adj PAT	44	70	-36.2%	101	-55.9%
No. of Shares	12	12	0.0%	12	0.0%
Adj EPS (Rs)	3.8	5.9	-36.2%	8.6	-55.9%

Per Tonne Analysis

	Q1FY21	Q1FY20	YoY Growth(%)	Q4FY20	QoQ Growth (%)
Cement Volume (MT)	1.91	2.33	-18.0%	2.50	-23.5%
Cost of materials consumed	1118	1016	10.1%	945	18.3%
Employee Expenses	423	332	27.5%	304	39.1%
Power & Fuel	688	958	-28.2%	802	-14.2%
Freight & forwarding	868	914	-5.1%	856	1.3%
Other expenses	472	523	-9.8%	531	-11.1%
Total expenses	3569	3743	-4.7%	3438	3.8%
Realisation (inc. RMC)	4319	4472	-3.4%	4246	1.7%
EBITDA	750	729	2.9%	808	-7.2%

Change in Estimates

Year / Rs cr	Old estimates		New estimates		Change %	
	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
Revenue	3,470	4,011	3,705	4,191	6.8%	4.5%
EBITDA	524	625	613	695	16.9%	11.2%
Margins (%)	15.1%	15.6%	16.5%	16.6%	140bps	100bps
Adj. PAT *	152	236	213	290	40.5%	22.9%
EPS	12.9	20.1	18.1	24.7	40.3%	22.6%

PROFIT & LOSS

Y.E March (Rs. cr)	FY18A	FY19A	FY20A	FY21E	FY22E
Revenue	3,412	3,882	4,044	3,705	4,191
% change	17.2	13.8	4.2	-8.4	13.1
EBITDA	411	415	672	613	695
% change	12.6	0.9	62.0	-8.9	13.4
Depreciation	179	179	188	195	201
EBIT	232	236	484	418	494
Interest	197	187	164	148	131
Other Income	68	56	49	49	51
PBT	103	104	339	319	414
% change	40.0	1.7	225.1	-6.1	30.0
Tax	18.8	24.9	104.2	105.9	124.3
Tax Rate (%)	18.3%	23.8%	30.7%	33.2%	30.0%
Reported PAT	84.0	79.6	235.2	212.9	290.1
Adj*	0	0	-30	0	0
Adj PAT	84.0	79.6	265.5	212.9	290.1
% change	3.5	-5.2	233.7	-19.8	36.2
No. of shares (cr)	11.8	11.8	11.8	11.8	11.8
Adj EPS (Rs.)	7	7	23	18	25
% change	3.5	-5.2	233.7	-19.8	36.2
DPS (Rs.)	2	2	2	2	2
CEPS (Rs.)	22.4	22.0	38.6	34.6	41.7

CASH FLOW

Y.E March (Rs. cr)	FY18A	FY19A	FY20A	FY21E	FY22E
Net inc. + Depn.	263	259	454	408	491
Non-cash adj.	0	0	-49	0	0
Other adjustments	197	187	232	148	131
Changes in W.C	64	370	-36	26	3
C.F. Operation	525	816	541	582	625
Capital exp.	-169	-205	-87	-48	-200
Change in inv.	14	75	-38	-100	-50
Other invest.CF	0	0	-34	0	0
C.F - Investment	-154	-130	-159	-148	-250
Issue of equity	0	0	0	0	0
Issue/repay debt	-336	-665	-321	-308	-341
Dividends paid	-28	-28	-45	-28	-28
Other finance.CF	-4	13	-3	0	0
C.F - Finance	-368	-680	-369	-337	-369
Chg. in cash	3	6	13	97	6
Closing cash	12	18	31	129	135

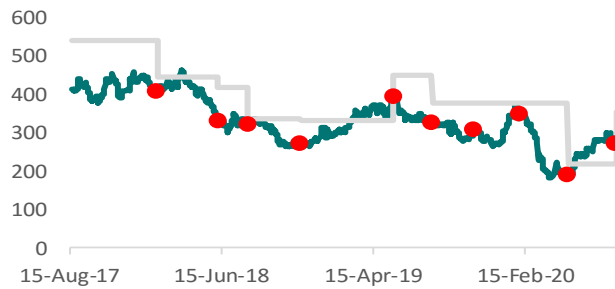
BALANCE SHEET

Y.E March (Rs. cr)	FY18A	FY19A	FY20A	FY21E	FY22E
Cash	12	18	31	129	135
Accounts Receivable	97	107	88	101	115
Inventories	317	312	413	331	366
Other Cur. Assets	228	228	278	254	287
Investments	795	720	784	884	934
Gross Fixed Assets	4,810	4,831	5,186	5,336	5,536
Net Fixed Assets	2,791	2,633	2,799	2,755	2,754
CWIP	228	411	152	50	50
Intangible Assets	2	5	4	4	4
Def. Tax (Net)	20	22	-20	-20	-20
Other Assets	0	0	0	0	0
Total Assets	4,489	4,455	4,529	4,488	4,624
Current Liabilities	1,040	1,410	1,436	1,361	1,442
Provisions	24	29	17	25	29
Debt Funds	1,811	1,319	1,183	1,033	833
Other Liabilities	161	176	181	171	161
Equity Capital	59	59	59	59	59
Reserves & Surplus	1,394	1,464	1,654	1,838	2,100
Shareholder's Fund	1,453	1,523	1,713	1,897	2,159
Total Liabilities	4,489	4,455	4,529	4,488	4,624
BVPS (Rs.)	123	129	146	161	183

RATIOS

Y.E March	FY18A	FY19A	FY20A	FY21E	FY22E
Profitab. & Return					
EBITDA margin (%)	12.1	10.7	16.6	16.5	16.6
EBIT margin (%)	6.8	6.1	12.0	11.3	11.8
Net profit mgn.(%)	2.5	2.0	6.6	5.7	6.9
ROE (%)	5.9	5.3	16.4	11.8	14.3
ROCE (%)	8.5	8.7	15.0	12.4	14.2
W.C & Liquidity					
Receivables (days)	10.0	9.6	8.8	9.3	9.4
Inventory (days)	139.4	118.4	138.8	140.3	119.1
Payables (days)	381.5	366.9	434.7	417.2	376.1
Current ratio (x)	0.6	0.5	0.6	0.6	0.6
Quick ratio (x)	0.1	0.1	0.1	0.1	0.1
Turnover & Leverage					
Gross asset T.O (x)	0.7	0.8	0.8	0.7	0.8
Total asset T.O (x)	0.8	0.9	0.9	0.8	0.9
Int. coverage ratio (x)	1.2	1.3	3.0	2.8	3.8
Adj. debt/equity (x)	1.4	1.1	0.9	0.7	0.5
Valuation					
EV/Sales (x)	1.3	1.1	1.0	1.0	0.8
EV/EBITDA (x)	10.8	9.9	5.8	5.8	4.7
P/E (x)	38.5	40.7	12.2	15.2	11.2
P/BV (x)	2.2	2.1	1.9	1.7	1.5

Recommendation Summary



Dates	Rating	Target
21-Nov-18	Buy	331
28-May-19	Buy	453
13-Aug-19	Accumulate	380
6-Nov-19	Accumulate	380
3-Feb-20	Buy	380
11-May-20	Accumulate	220
21-Aug-20	Buy	355

Investment Rating Criteria

Ratings	Large caps	Midcaps	Small Caps
Buy	Upside is above 10%	Upside is above 15%	Upside is above 20%
Accumulate	-	Upside is between 10%-15%	Upside is between 10%-20%
Hold	Upside is between 0% - 10%	Upside is between 0%-10%	Upside is between 0%-10%
Reduce/sell	Downside is more than 0%	Downside is more than 0%	Downside is more than 0%
Not rated			

Definition:

Buy: Acquire at Current Market Price (CMP), with the target mentioned in the research note.

Accumulate: Partial buying or to accumulate as CMP dips in the future.

Hold: Hold the stock with the expected target mentioned in the note.

Reduce: Reduce your exposure to the stock due to limited upside.

Sell: Exit from the stock.

Not rated: The analyst has no investment opinion on the stock.

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

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