

JK Lakshmi Cement (JKLC IN)

Rating: BUY | CMP: Rs285 | TP: Rs370

November 6, 2020

Q2FY21 Result Update

☑ Change in Estimates | ☑ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY22E	FY23E	FY22E	FY23E
Rating	BUY		BUY	
Target Price	370		350	
Sales (Rs. m)	44,403	45,002	43,319	44,741
% Chng.	2.5	0.6		
EBITDA (Rs. m)	7,090	7,214	6,779	6,580
% Chng.	4.6	9.6		
EPS (Rs.)	24.9	27.8	22.9	24.1
% Chng.	8.6	15.5		

Key Financials - Standalone

Y/e Mar	FY20	FY21E	FY22E	FY23E
Sales (Rs. m)	40,435	42,281	44,403	45,002
EBITDA (Rs. m)	6,724	7,154	7,090	7,214
Margin (%)	16.6	16.9	16.0	16.0
PAT (Rs. m)	2,733	2,820	2,926	3,276
EPS (Rs.)	23.2	24.0	24.9	27.8
Gr. (%)	243.5	3.2	3.8	11.9
DPS (Rs.)	2.0	1.0	1.0	1.0
Yield (%)	0.7	0.4	0.4	0.4
RoE (%)	16.9	15.2	13.7	13.5
RoCE (%)	15.3	16.0	15.9	17.0
EV/Sales (x)	1.1	1.0	0.8	0.7
EV/EBITDA (x)	6.5	5.8	5.2	4.3
PE (x)	12.3	11.9	11.5	10.2
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	41,893 / 12,264
Market Cap	Rs.34bn / \$ 452m
Shares Outstanding	118m
3M Avg. Daily Value	Rs.176.45m

Shareholding Pattern (%)

Promoter's	46.21
Foreign	9.92
Domestic Institution	23.57
Public & Others	20.30
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	8.4	44.1	(7.0)
Relative	2.4	9.0	(10.2)

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Steady performance on all counts

Quick Pointers:

- Confident to maintain current margins in H2
- Consolidated net debt fell 22%/Rs3.4bn in H1 at Rs11.8bn
- Net debt to remain at current levels even after capex on new capacity expansion

JK Lakshmi Cement (JKLC) posted strong set of Q1FY21 earnings. EBITDA came above our/consensus estimates (CE) by 10%/24%, driven by better than expected realisations.

Strong profitability in North and Gujarat regions helped company to balance the weakness in Eastern region (24% of total volumes). Tight demand-supply market conditions 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 due to unsustainable RoEs and industry consolidation. Commissioning of CPP, WHR and split grinding unit at Odisha further boosted the cost competitiveness of its East operations. To factor higher realisations and better growth in volumes, we upgrade our EBITDA estimates of FY21e/FY22e by 6.0%/4.6%. We remain upbeat on JKLC on the back of strong outlook on its North and Gujarat markets, ample scope for capacity augmentation and attractive valuations (EV/EBITDA: 5.2x FY22e). We maintain BUY rating with revised TP of Rs370 (earlier Rs350).

- Better realisations and volume growth led the beat:** JKLC's sales volumes grew 16% YoY at 2.4mnt, marginally above our estimate of 2.3mnt. Realisations increased by 1% QoQ/Rs50 (↓3.5% YoY/Rs160) at Rs4,380 (PLe:Rs4,330). Cost fell 6% YoY/Rs220 at ~Rs3,600 (PLe:Rs3,600) on the back of 15%/5% fall in energy/freight cost. Led by better realisations, EBITDA/t came above our estimates at Rs785 (PLe:Rs730), up 8% YoY. Strong volume growth and expansion in margins drove 26% growth in EBITDA at Rs1.87bn (PLe:Rs1.7bn). Aided by steep increase of 171% YoY in other income at Rs183 (PLe:Rs75mn) and 540bps YoY reduction in tax rate at 31.5% (PLe:32%), PAT rose 75% YoY at Rs806mn (PLe:Rs642mn, CE:Rs480mn).

- Key highlights of earnings con-call:** 1) Non-trade prices in North increased by Rs25-30/bag in October while trade prices improved by Rs10/bag 2) Prices in Chhattisgarh increased by Rs5/bag; remained soft in rest of East region 3) Prices in Gujarat remained unchanged 4) Cost would remain under control in Q3 due to low cost pet coke inventory 5) Impact of increase in pet coke prices in Q4 would be more than offset by seasonal strength in cement prices 6) Approved 2.5mtpa brownfield expansion (including WHR) at Udaipur cement works with an outlay of Rs14bn and debt: equity mix of 70:30 7) Expansion would be commissioned in Q3FY24 8) Post commissioning of 12MW WHR at Sirohi plant in July-2021, the share of renewable energy would increase to 40% of total power requirement

Exhibit 1: Q2FY21 Result Overview (Rs mn)

Y/e March	Q2FY21	Q2FY20	YoY gr. (%)	Q2FY21	H1FY21	H1FY20	YoY gr. (%)
Net Sales	10,448	9,355	11.7	8,252	18,699	19,774	(5.4)
Raw Material	2,505	1,900	31.8	2,136	4,641	3,899	19.0
<i>% of Net Sales</i>	24.0	20.3		25.9	24.8	19.7	
Staff Costs	799	772	3.5	808	1,607	1,572	2.2
<i>% of Net Sales</i>	7.6	8.3		9.8	8.6	8.0	
Power & Fuel	2,059	2,090	(1.5)	1,315	3,374	4,323	(22.0)
<i>% of Net Sales</i>	19.7	22.3		15.9	18.0	21.9	
Freight and selling expenses	2,031	1,843	10.2	1,658	3,689	3,973	(7.2)
<i>% of Net Sales</i>	19.4	19.7		20.1	19.7	20.1	
Other Expenses	1,187	1,263	(6.0)	901	2,088	2,551	(18.1)
<i>% of Net Sales</i>	11.4	13.5		10.9	11.2	12.9	
Total Expenditure	8,581	7,868	9.1	6,818	15,399	16,319	(5.6)
EBITDA	1,867	1,487	25.6	1,433	3,300	3,455	(4.5)
<i>Margin (%)</i>	17.9	15.9		17.4	17.6	17.5	
Depreciation	493	437	13.0	484	977	889	9.9
Other income	183	68	170.8	82	265	129	105.4
EBIT	1,557	1,118	39.3	1,031	2,588	2,694	(3.9)
Interest	381	390	(2.3)	378	759	792	(4.1)
PBT	1,176	727	61.6	653	1,829	1,903	(3.9)
Extraordinary income/(expense)	-	-		-	-	(572)	
PBT (After EO)	1,176	727	61.6	653	1,829	1,330	37.5
Tax	370	268	38.0	209	579	477	21.4
<i>% PBT</i>	31.5	36.9		32.0	31.7	35.9	
Reported PAT	806	459	75.5	444	1,250	853	46.5
Adjusted PAT	806	459	75	444	1,250	1,220	2.4

Source: Company, PL

Exhibit 2: Key Operating Metrics

Y/e March	Q2FY21	Q2FY20	YoY gr. (%)	Q2FY21	H1FY21	H1FY20	YoY gr. (%)
Volume (mn te)	2.39	2.06	15.8	1.91	4.29	4.39	(2.3)
Net Realisations (Rs/te)	4,381	4,541	(3.5)	4,331	4,359	4,504	(3.2)
EBITDA/ te (Rs/te)	783	722	8.5	752	769	787	(2.2)

Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
Net Revenues	40,435	42,281	44,403	45,002
YoY gr. (%)	4.2	4.6	5.0	1.3
Cost of Goods Sold	8,513	9,667	10,342	10,779
Gross Profit	31,922	32,614	34,061	34,223
Margin (%)	78.9	77.1	76.7	76.0
Employee Cost	3,120	3,213	3,535	3,888
Other Expenses	5,464	5,160	5,354	5,453
EBITDA	6,724	7,154	7,090	7,214
YoY gr. (%)	62.0	6.4	(0.9)	1.7
Margin (%)	16.6	16.9	16.0	16.0
Depreciation and Amortization	1,884	2,029	2,116	2,161
EBIT	4,840	5,125	4,974	5,053
Margin (%)	12.0	12.1	11.2	11.2
Net Interest	1,644	1,540	1,267	843
Other Income	501	474	504	504
Profit Before Tax	3,999	4,058	4,210	4,713
Margin (%)	9.9	9.6	9.5	10.5
Total Tax	1,042	1,238	1,284	1,438
Effective tax rate (%)	26.1	30.5	30.5	30.5
Profit after tax	2,957	2,820	2,926	3,276
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	2,733	2,820	2,926	3,276
YoY gr. (%)	243.5	3.2	3.8	11.9
Margin (%)	6.8	6.7	6.6	7.3
Extra Ord. Income / (Exp)	224	-	-	-
Reported PAT	2,957	2,820	2,926	3,276
YoY gr. (%)	271.6	(4.6)	3.8	11.9
Margin (%)	7.3	6.7	6.6	7.3
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	2,957	2,820	2,926	3,276
Equity Shares O/s (m)	118	118	118	118
EPS (Rs)	23.2	24.0	24.9	27.8

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
Non-Current Assets				
Gross Block	36,696	37,096	39,096	39,496
Tangibles	36,696	37,096	39,096	39,496
Intangibles	-	-	-	-
Acc: Dep / Amortization	8,659	10,688	12,804	14,965
Tangibles	8,659	10,688	12,804	14,965
Intangibles	-	-	-	-
Net fixed assets	28,037	26,408	26,292	24,531
Tangibles	28,037	26,408	26,292	24,531
Intangibles	-	-	-	-
Capital Work In Progress	1,897	3,017	1,833	1,833
Goodwill	-	-	-	-
Non-Current Investments	4,715	4,715	4,715	4,715
Net Deferred tax assets	(205)	(692)	(1,197)	(1,762)
Other Non-Current Assets	18	18	18	18
Current Assets				
Investments	4,169	4,169	4,169	4,169
Inventories	4,128	3,939	4,136	4,192
Trade receivables	882	1,158	1,217	1,233
Cash & Bank Balance	314	241	465	1,481
Other Current Assets	1,189	1,441	1,475	1,485
Total Assets	45,499	44,766	43,476	42,247
Equity				
Equity Share Capital	589	589	589	589
Other Equity	16,538	19,359	22,167	25,325
Total Network	17,127	19,947	22,756	25,914
Non-Current Liabilities				
Long Term borrowings	14,667	12,167	7,667	3,167
Provisions	114	114	114	114
Other non current liabilities	1,813	1,813	1,813	1,813
Current Liabilities				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	4,685	4,170	4,379	4,439
Other current liabilities	4,740	4,232	4,354	4,389
Total Equity & Liabilities	45,499	44,766	43,476	42,247

Source: Company Data, PL Research



Cash Flow (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
PBT	3,697	4,058	4,210	4,713
Add. Depreciation	1,884	2,029	2,116	2,161
Add. Interest	1,644	1,540	1,267	843
Less Financial Other Income	501	474	504	504
Add. Other	(393)	(340)	(370)	(370)
Op. profit before WC changes	6,832	7,287	7,224	7,348
Net Changes-WC	(662)	(1,390)	110	31
Direct tax	(758)	(751)	(779)	(872)
Net cash from Op. activities	5,413	5,147	6,555	6,507
Capital expenditures	(865)	(1,520)	(816)	(400)
Interest / Dividend Income	-	-	-	-
Others	(721)	340	370	370
Net Cash from Invst. activities	(1,586)	(1,180)	(446)	(30)
Issue of share cap. / premium	-	-	-	-
Debt changes	(1,498)	(2,500)	(4,500)	(4,500)
Dividend paid	(455)	-	(118)	(118)
Interest paid	(1,740)	(1,540)	(1,267)	(843)
Others	-	-	-	-
Net cash from Fin. activities	(3,693)	(4,040)	(5,885)	(5,461)
Net change in cash	134	(74)	224	1,016
Free Cash Flow	4,547	3,627	5,739	6,107

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q3FY20	Q4FY20	Q1FY21	Q2FY21
Net Revenue	10,050	10,612	8,252	10,448
YoY gr. (%)	7.5	(9.5)	(20.8)	11.7
Raw Material Expenses	2,253	2,361	2,136	2,505
Gross Profit	7,797	8,251	6,116	7,943
Margin (%)	77.6	77.8	74.1	76.0
EBITDA	1,519	2,020	1,433	1,867
YoY gr. (%)	54.6	53.9	(27.2)	25.6
Margin (%)	15.1	19.0	17.4	17.9
Depreciation / Depletion	485	510	484	493
EBIT	1,035	1,511	949	1,374
Margin (%)	10.3	14.2	11.5	13.1
Net Interest	428	425	378	381
Other Income	147	225	82	183
Profit before Tax	754	1,311	653	1,176
Margin (%)	7.5	12.4	7.9	11.3
Total Tax	262	303	209	370
Effective tax rate (%)	34.7	23.1	32.0	31.5
Profit after Tax	492	1,008	444	806
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	492	1,008	444	806
YoY gr. (%)	233.4	132.9	(42.2)	75.5
Margin (%)	4.9	9.5	5.4	7.7
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	492	1,008	444	806
YoY gr. (%)	233.4	132.9	12.7	75.5
Margin (%)	4.9	9.5	5.4	7.7
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	492	1,008	444	806
Avg. Shares O/s (m)	118	118	118	118
EPS (Rs)	4.2	8.6	3.8	6.8

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY20	FY21E	FY22E	FY23E
Per Share(Rs)				
EPS	23.2	24.0	24.9	27.8
CEPS	39.2	41.2	42.8	46.2
BVPS	145.5	169.5	193.3	220.2
FCF	38.6	30.8	48.8	51.9
DPS	2.0	1.0	1.0	1.0
Return Ratio(%)				
RoCE	15.3	16.0	15.9	17.0
ROIC	13.2	12.9	13.0	14.6
RoE	16.9	15.2	13.7	13.5
Balance Sheet				
Net Debt : Equity (x)	0.6	0.4	0.1	(0.1)
Net Working Capital (Days)	3	8	8	8
Valuation(x)				
PER	12.3	11.9	11.5	10.2
P/B	2.0	1.7	1.5	1.3
P/CEPS	7.3	6.9	6.7	6.2
EV/EBITDA	6.5	5.8	5.2	4.3
EV/Sales	1.1	1.0	0.8	0.7
Dividend Yield (%)	0.7	0.4	0.4	0.4

Source: Company Data, PL Research

Key Operating Metrics

Y/e Mar	FY20	FY21E	FY22E	FY23E
Volume (mn te)-Cement	9	9	10	10
Cement Realisation (Rs/te)	4,404	4,342	4,383	4,383
EBITDA (Rs/ te)	732	735	700	703
RM cost (Rs/ te)	1,011	1,094	1,097	1,127
Power, Oil & Fuel (Rs/ te)	1,002	952	951	872
Freight Charges (Rs/ te)	917	920	930	943

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	06-Oct-20	BUY	350	263
2	21-Aug-20	BUY	350	274
3	10-Aug-20	BUY	350	287
4	09-Jul-20	BUY	350	281
5	16-Jun-20	BUY	350	238
6	21-May-20	BUY	340	206
7	09-Apr-20	Hold	16,680	16,064
8	29-Jan-20	Accumulate	425	370
9	03-Jan-20	Accumulate	376	306

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	ACC	BUY	1,805	1,563
2	Ambuja Cement	BUY	285	254
3	Coal India	Hold	132	113
4	Heidelberg Cement India	Hold	195	185
5	Hindalco Industries	BUY	218	174
6	Hindustan Zinc	Hold	235	223
7	Jindal Steel & Power	BUY	260	191
8	JK Lakshmi Cement	BUY	350	263
9	JSW Steel	Reduce	223	321
10	NMDC	Accumulate	98	83
11	Shree Cement	Reduce	19,100	20,297
12	Steel Authority of India	Reduce	30	34
13	Tata Steel	Reduce	315	374
14	The Ramco Cements	Reduce	675	802
15	Ultratech Cement	BUY	5,400	4,629

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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