

JK Lakshmi Cement | BUY

Operationally inline; Cost escalation offset strong realisation

JK Lakshmi reported in-line results with 8%/8% YoY volume/realisation growth driving the 16% revenue growth. Volume at 2.3mnT, grew on higher capacity. EBITDA/t declined 5.4% YoY as increase in power/fuel and freight costs more than offset the realisation growth. JK Lakshmi is in the process of setting up a 7.5MW of WHR and 20MW of Thermal power plant at its Durg plant expected to come on stream by 3QFY18 and 3QFY19 respectively. In medium term clinker capacity could be a bottleneck with the current sales mix. We roll forward the TP, valuing the stock at 9x EVE to arrive at a TP of Rs520 (Sep'18).

- Volume/realisation drive 16% revenue growth:** JK Lakshmi reported revenues at Rs9bn growing 16% YoY was marginally ahead of JMFe. Company reported 2.3mnT of cement volumes (including 0.35MT of clinker sales) growing by c.8% YoY (sequential growth of 24%) on capacity addition (Durg/Surat 1.25MTPA), was in-line with JMFe. Cement realisations at Rs3,758/t was higher by 12% QoQ (8% YoY). RMC sales for the quarter stood at Rs390mn (flat YoY). In 1QFY18, East witnessed a volume growth of 10-12%, volumes in North declined by 2-3% and the West experienced a decline of 4-5% as per management. Management is confident of the demand pick up post monsoons (2HFY18) with North expected to grow at 5-6% and East expected to grow at 8%.
- Margins negatively impacted by power/fuel and freight costs:** 1QFY18 EBITDA at Rs1.2bn (2.4% YoY) was in-line with the JMFe. Higher than expected realisation growth (Rs88/t higher) was offset by cost escalations- power and fuel costs (Rs75/t higher than JMFe) and raw material costs (Rs28/t higher than JMFe). EBITDA/t for the quarter decline by 5% to Rs526/t from Rs556/t in 1QFY17 on increase in power/fuel costs (Rs218/t of negative impact) on higher petcoke/coal prices and increase in freight costs (Rs71/t of negative impact) on higher diesel prices and busy season surcharge applicable on rail freight during the quarter more than offsetting the realisation growth (Rs260/t of positive impact). During the quarter, company improved its power consumption to 72Kwh/MT from 73Kwh/MT same quarter last year. Further, the company has successfully been able to moderate the fuel consumption from 701Kcal/kg of clinker to 696Kcal/kg of clinker.
- Other details:** i) Company is in the process of installing 7.5MW of WHR in Durg which is likely to be commissioned in 3QFY18; ii) JK Lakshmi is putting up a 20MW of Thermal power plant in Durg, expected to come on stream in 3QFY19; iii) the company is using 80-85% of the petcoke in the Northern operations and 60-65% of petcoke in the Eastern operations; iv) Lead distance during the quarter was 460/280kms for north/east operations; v) As on 30th June'17 gross debt stands at Rs22bn and net debt stands at Rs17bn with Rs5.25bn of additional debt on Udaipur; vi) Average petcoke price in 1QFY18 was at Rs7,000/t, current petcoke price are Rs7,500/t.
- Maintain BUY:** JK Lakshmi is currently trading at 8/6.4x FY19/20E EV/EBITDA (standalone). We value the stock at 9x standalone EV/EBITDA and adjusting of UCWL stake to arrive at TP of Rs520 (Sep'18). Maintain BUY.



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Recommendation and Price Target

Current Reco.	BUY
Previous Reco.	BUY
Current Price Target (12M)	520
Upside/(Downside)	15.7%
Previous Price Target	500
Change	4.0%

Key Data – JKLC IN

Current Market Price	Rs450
Market cap (bn)	Rs52.9/US\$0.8
Free Float	55%
Shares in issue (mn)	117.7
Diluted share (mn)	117.7
3-mon avg daily val (mn)	Rs56.6/US\$0.1
52-week range	537/327
Sensex/Nifty	32,325/10,066
Rs/US\$	63.6

Price Performance

%	1M	6M	12M
Absolute	-5.6	14.1	6.3
Relative*	-8.8	-0.3	-8.9

* To the BSE Sensex

JM Financial Research is also available on:
Bloomberg - JMFR <GO>,
Thomson Publisher & Reuters
S&P Capital IQ and FactSet

Please see Appendix I at the end of this report for Important Disclosures and Disclaimers and Research Analyst Certification.

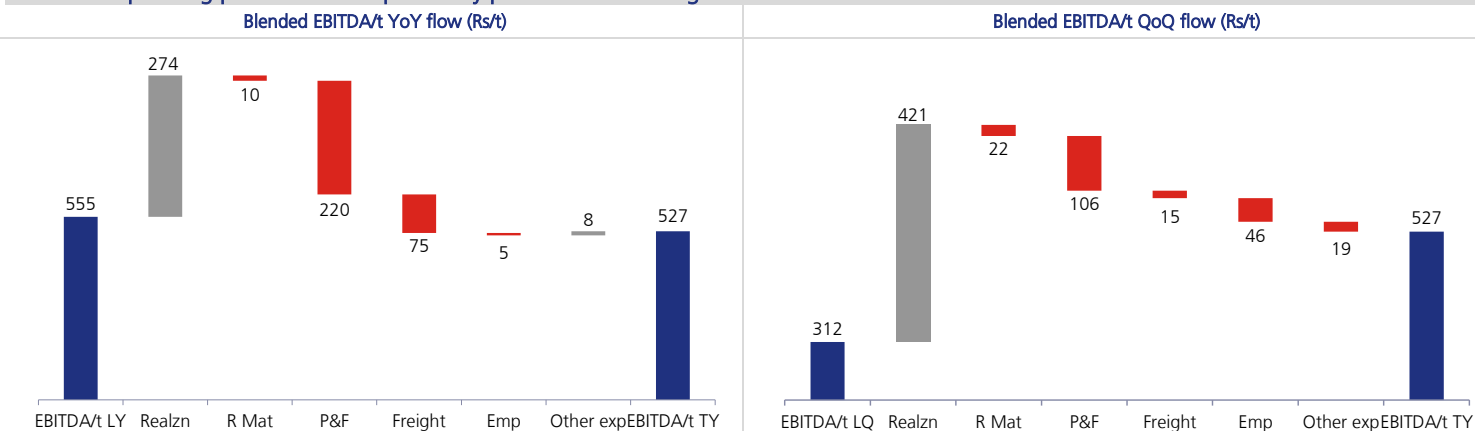
Financial Summary	(Rs mn)				
Y/E March	FY16A	FY17A	FY18E	FY19E	FY20E
Net Sales	26,199	29,104	33,683	38,228	42,213
Sales Growth (%)	13.9	11.1	15.7	13.5	10.4
EBITDA	2,720	3,654	5,093	6,909	8,008
EBITDA Margin (%)	10.4	12.6	15.1	18.1	19.0
Adjusted Net Profit	42	820	1,651	3,253	3,993
Diluted EPS (Rs.)	0.4	7.0	14.0	27.6	33.9
Diluted EPS Growth (%)	-97.4	1,866.4	101.3	97.0	22.8
ROIC (%)	-0.4	8.4	11.2	18.0	21.9
ROE (%)	0.3	6.1	11.4	19.9	20.9
P/E (x)	1,269.8	64.6	32.1	16.3	13.3
P/B (x)	4.1	3.8	3.5	3.0	2.6
EV/EBITDA (x)	25.7	19.9	13.9	9.6	7.8
Dividend Yield (%)	0.1	0.2	0.6	1.2	1.5

Source: Company data, JM Financial. Note: Valuations as of 04/Aug/2017

Other con-call highlights

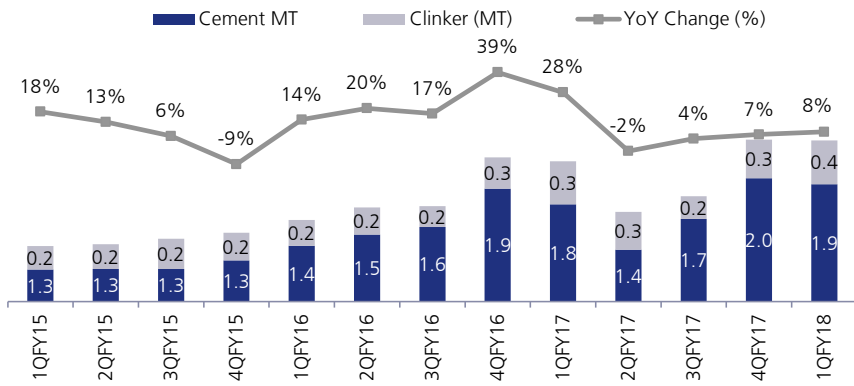
- Region-wise sales
 - North: 1.66MT of cement sales and 0.317MT of clinker sales
 - East: 0.62MT of cement and 0.03MT of clinker
- Company produced 1.237MT of clinker in Sirohi and 0.4MT of clinker in Durg during 1QFY18
- Durg is operating at 92% capacity utilisation while Northern operations are operating at 74% utilisation levels. Management is hopeful to ramp up operations at Udaipur by 4QFY18.
- State wise market share for the company
 - Chattisgarh – 16-17% market share
 - Gujarat – 10-10.5% market share
 - Rajasthan – 8% market share
 - North – 6-7% market share
- Durg is currently operating at 11% EBITDA margin.
- Company has contracted a 0.1MTPA of grinding unit at Kharagpur
- There is a pricing gap of Rs200/t between North and East operations with North being higher. While the cost at Sirohi is Rs100/t lower than Durg on account of captive power available at Sirohi
- Cement prices in Chhattisgarh have been capped by the state government at Rs230/bag. The company has been supplying at the price for the last month and a half. Management has taken up the matter with the government and expects the issue to be resolved within a month.
- JK Lakshmi has expansion potential of 2MTPA at all the three locations of Sirohi, Durg and Udaipur. Management expects US\$70-75/t of capital cost required to put up the incremental capacity as the company has clearances and limestone reserves for the same.
- Management expects to pay Rs2bn of debt every year
- Capex for FY18 is expected to be Rs1.5bn; major part of which is expected to be for the WHR and Thermal power plant being put up in Durg
- Cement sales mix during the quarter: OPC 43%, PPC 53% and PSC 4%.

Exhibit 1. Operating performance impacted by power/fuel and freight costs



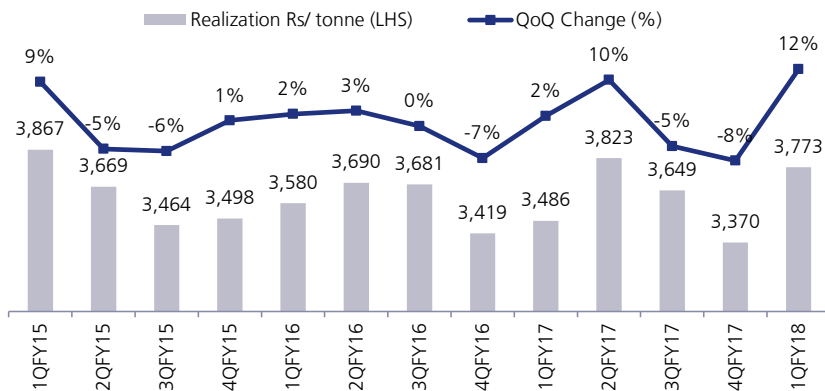
Source: Company, JM Financial

Exhibit 2. Cement volume trends



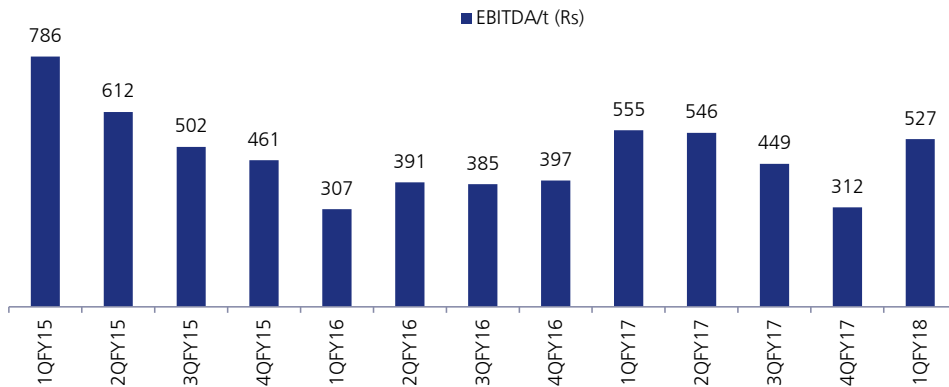
Source: Company, JM Financial

Exhibit 3. Cement realisation trends



Source: Company, JM Financial

Exhibit 4. EBITDA/t trends



Source: Company, JM Financial

Exhibit 5. Results in brief

	(Rs mn)							
	1QFY18	1QFY17	%YoY	4QFY17	%QoQ	FY18E	FY17	%YoY
Net Sales(excluding excise)	9,011	7,772	15.9	8,067	11.7	33,412	29,104	14.8
Other Operating Income	0	0		0		271	0	
Total Revenues	9,011	7,772	15.9	8,067	11.7	33,683	29,104	15.7
Expenditure	7,808	6,597	18.4	7,352	6.2	28,590	25,450	12.3
EBITDA	1,203	1,175	2.4	716	68.2	5,093	3,654	39.4
% margin	13.4	15.1	-177 bps	8.9	448 bps	15.1	12.6	257 bps
Other income	102	104	-2.1	263	-61.2	587	698	-15.9
Interest	492	463	6.2	466	5.5	1,964	1,887	4.1
Depreciation	439	412	6.5	457	-3.9	1,774	1,724	2.9
PBT	374	404	-7.3	55	575.8	1,942	742	161.7
Tax	91	118	-22.3	-153	-159.7	291	-78	-473.5
% tax rate	24.4	29.1		-276.4		15.0	-10.5	
PAT (Reported)	283	286	-1.2	208	35.7	1,651	820	101.3
EPS (Rs)	2.4	2.4	-1.2	1.8	35.7	14.0	7.0	101.3
Key Operational matrix								
Cement sales (mn tonnes)	2.29	2.12	7.9	2.29	-0.2	8.69	7.96	9.2
Realisation (Rs/tonne)	3,773	3,486	8.2	3,370	12.0	3,658	3,481	5.1
EBITDA Rs/tonne	527	555	-5.1	312	68.5	555	459	20.9

Source: Company, JM Financial

Exhibit 6. Expenses breakdown

	(Rs mn)							
	1QFY18	1QFY17	%YoY	4QFY17	%QoQ	FY18E	FY17	%YoY
Raw material	1,439	1,356	6.1	1,494	-3.7	5,849	5,249	11.4
Rs/tonne	630	640	-1.6	653	-3.5	673	659	2.0
Power and fuel	1,920	1,313	46.2	1,682	14.2	7,122	5,670	25.6
Rs/tonne	840	620	35.6	734	14.4	819	712	15.0
Freight	2,140	1,826	17.2	2,111	1.4	8,101	7,201	12.5
Rs/tonne	937	862	8.6	922	1.6	932	904	3.0
(Inc)/dec in stock	76	104	-27.3	214	-64.5	146	128	14.7
Rs/tonne	33	49	-32.6	93	-64.4	17	16	5.0
Total Variable cost	5,575	4,599	21.2	5,501	1.3	21,218	18,247	16.3
Rs/tonne	2,440	2,172	12.4	2,402	1.6	2,441	2,292	6.5
Staff cost	591	538	9.9	488	21.1	2,322	2,084	11.4
Rs/tonne	259	254	1.9	213	21.4	267	262	2.0
Other expenditure	832	788	5.6	791	5.2	3,097	2,876	7.7
Rs/tonne	364	372	-2.1	345	5.5	356	361	-1.4
Total fixed cost	1,423	1,326	7.4	1,279	11.3	5,418	4,960	9.2
Rs/tonne	623	626	-0.5	558	11.5	623	623	0.0
Tot expenditure excluding excise	6,999	5,925	18.1	6,780	3.2	26,637	23,207	14.8
Cost Rs/tonne	3,063	2,798	9.5	2,961	3.4	3,064	2,915	5.1

Source: Company, JM Financial

Company background

- Established since 1982, JK Lakshmi is a leading Indian cement company in North India with annual turnover of Rs26bn (FY16). It has cement capacity of c.10.7MT currently, mainly in North India. Company has wide network of c.70 cement dumps and over 2,200 dealers spread across the states of Rajasthan, Gujarat, Delhi, Haryana, U.P., Punjab, J&K, MP, Mumbai and Pune. It sells cement under the brand "JK Lakshmi (Mazbooti guaranteed)". Company is also engaged in selling RMC (JK Lakshmi Power Mix), PoP (JK Lakshmiplast) and autoclave aerated concrete (JK Smartblox).

Key investment arguments

- Volume growth led by doubling of capacity: JK Lakshmi is expected to increase its capacity to c.11.3MT by FY19. Volumes are expected to witness c.8% CAGR over FY17-20E (ex-Udaipur).
- One of the most cost efficient players in the industry: JKLC cost parameters are comparable with the best in the industry. Company has consistently improved on its performance on energy efficiency and now boasts of one of the lowest energy consumption parameter in the country for cement production. The company also has one of the leanest overhead structure which also provides a cost edge over the competitors.
- Significant free cash flow generation FY17 onwards: The only major capex left is for 0.6MT grinding unit at Cuttack. Bulk of capex on expansion projects has been completed in FY17. We expect significant cash flow generation of Rs16.2bn over FY18-20E.

Key Risks

- Company recently forayed into East market. It remains to be seen whether company can replicate the cost structure at new operations and compete effectively;
- Any delay in demand/price recovery can impact company's near term performance significantly as has been seen in recent quarters.
- Government's action on cement prices can have a significant impact on company's profitability

Valuation and View

- We value the stock at 9x EV/EBITDA to arrive at our TP of Rs520 (Sep'18). We maintain our BUY rating on the stock.

Exhibit 7. Volumes, realisation and cost outlook

	FY16	FY17	FY18E	FY19E	FY20E
Cement Sales (mn tonnes)	6.5	6.8	7.6	8.3	8.9
YoY Growth (%)	26.9	5.5	11.5	8.7	7.8
Cement Realisations (Rs/tonne)	3,459	3,606	3,805	4,014	4,145
YoY Growth (%)	-7.8	4.3	5.5	5.5	3.3
Power & Fuel (Rs/tonne)	709	681	783	807	831
Freight (Rs/tonne)	853	865	891	918	946
Raw Material (Rs/tonne)	645	631	643	656	676
Cement EBIDTA (Rs/tonne)	331	450	545	701	765

Source: Company, JM Financial

Financial Tables (Standalone)

Income Statement		(Rs mn)				
Y/E March	FY16A	FY17A	FY18E	FY19E	FY20E	
Net Sales	26,199	29,104	33,683	38,228	42,213	
Sales Growth	13.9%	11.1%	15.7%	13.5%	10.4%	
Other Operating Income	0	0	0	0	0	
Total Revenue	26,199	29,104	33,683	38,228	42,213	
Cost of Goods Sold/Op. Exp	4,802	5,377	5,995	6,555	7,198	
Personnel Cost	1,944	2,084	2,322	2,537	2,757	
Other Expenses	16,733	17,989	20,273	22,226	24,250	
EBITDA	2,720	3,654	5,093	6,909	8,008	
EBITDA Margin	10.4%	12.6%	15.1%	18.1%	19.0%	
EBITDA Growth	-22.2%	34.3%	39.4%	35.7%	15.9%	
Depn. & Amort.	1,629	1,724	1,774	1,858	1,932	
EBIT	1,091	1,930	3,319	5,052	6,077	
Other Income	486	698	587	632	672	
Finance Cost	1,967	1,887	1,964	1,857	1,757	
PBT before Excep. & Forex	-389	742	1,942	3,827	4,992	
Excep. & Forex Inc./Loss(-)	0	0	0	0	0	
PBT	-389	742	1,942	3,827	4,992	
Taxes	-431	-78	291	574	998	
Extraordinary Inc./Loss(-)	-107	0	0	0	0	
Assoc. Profit/Min. Int.(-)	0	0	0	0	0	
Reported Net Profit	-66	820	1,651	3,253	3,993	
Adjusted Net Profit	42	820	1,651	3,253	3,993	
Net Margin	0.2%	2.8%	4.9%	8.5%	9.5%	
Diluted Share Cap. (mn)	117.7	117.7	117.7	117.7	117.7	
Diluted EPS (Rs.)	0.4	7.0	14.0	27.6	33.9	
Diluted EPS Growth	-97.4%	1,866.4%	101.3%	97.0%	22.8%	
Total Dividend + Tax	35	106	386	761	934	
Dividend Per Share (Rs)	0.2	0.8	2.8	5.5	6.8	

Source: Company, JM Financial

Balance Sheet		(Rs mn)				
Y/E March	FY16A	FY17A	FY18E	FY19E	FY20E	
Shareholders' Fund	13,041	13,817	15,081	17,573	20,632	
Share Capital	589	589	589	589	589	
Reserves & Surplus	12,452	13,228	14,493	16,984	20,043	
Preference Share Capital	0	0	0	0	0	
Minority Interest	0	0	0	0	0	
Total Loans	16,908	19,663	19,513	18,513	17,513	
Def. Tax Liab. / Assets (-)	163	0	0	0	0	
Total - Equity & Liab.	30,112	33,480	34,595	36,086	38,145	
Net Fixed Assets	30,126	30,314	30,940	29,997	30,066	
Gross Fixed Assets	44,020	46,712	49,212	51,212	53,212	
Intangible Assets	0	0	0	0	0	
Less: Depn. & Amort.	16,725	18,448	20,223	22,080	24,012	
Capital WIP	2,831	2,051	1,951	866	866	
Investments	4,369	8,092	8,092	8,092	8,092	
Current Assets	6,589	7,428	9,588	13,889	17,518	
Inventories	2,406	2,776	3,230	3,666	4,048	
Sundry Debtors	965	895	1,107	1,257	1,388	
Cash & Bank Balances	118	90	1,584	5,300	8,415	
Loans & Advances	394	543	543	543	543	
Other Current Assets	2,707	3,124	3,124	3,124	3,124	
Current Liab. & Prov.	10,972	12,354	14,025	15,892	17,530	
Current Liabilities	1,987	2,648	4,319	6,186	7,824	
Provisions & Others	8,985	9,706	9,706	9,706	9,706	
Net Current Assets	-4,383	-4,926	-4,437	-2,003	-12	
Total - Assets	30,112	33,480	34,595	36,086	38,145	

Source: Company, JM Financial

Cash Flow Statement		(Rs mn)				
Y/E March	FY16A	FY17A	FY18E	FY19E	FY20E	
Profit before Tax	-389	742	1,942	3,827	4,992	
Depn. & Amort.	1,629	1,724	1,774	1,858	1,932	
Net Interest Exp. / Inc. (-)	1,888	1,887	1,964	1,857	1,757	
Inc (-) / Dec in WCap.	839	515	1,005	1,282	1,125	
Others	-618	-698	-587	-632	-672	
Taxes Paid	-19	78	-291	-574	-998	
Operating Cash Flow	3,329	4,247	5,807	7,618	8,135	
Capex	-2,000	-1,912	-2,400	-915	-2,000	
Free Cash Flow	1,330	2,335	3,407	6,703	6,135	
Inc (-) / Dec in Investments	713	-3,723	0	0	0	
Others	33	698	587	632	672	
Investing Cash Flow	-1,254	-4,937	-1,813	-283	-1,328	
Inc / Dec (-) in Capital	0	0	0	0	0	
Dividend + Tax thereon	-281	-106	-386	-761	-934	
Inc / Dec (-) in Loans	203	2,755	-150	-1,000	-1,000	
Others	-2,032	-1,987	-1,964	-1,857	-1,757	
Financing Cash Flow	-2,111	662	-2,500	-3,618	-3,692	
Inc / Dec (-) in Cash	-35	-28	1,494	3,716	3,115	
Opening Cash Balance	153	118	90	1,584	5,300	
Closing Cash Balance	118	90	1,584	5,300	8,415	

Source: Company, JM Financial

Dupont Analysis						
Y/E March	FY16A	FY17A	FY18E	FY19E	FY20E	
Net Margin	0.2%	2.8%	4.9%	8.5%	9.5%	
Asset Turnover (x)	0.8	0.9	1.0	1.1	1.1	
Leverage Factor (x)	2.4	2.4	2.4	2.2	1.9	
RoE	0.3%	6.1%	11.4%	19.9%	20.9%	

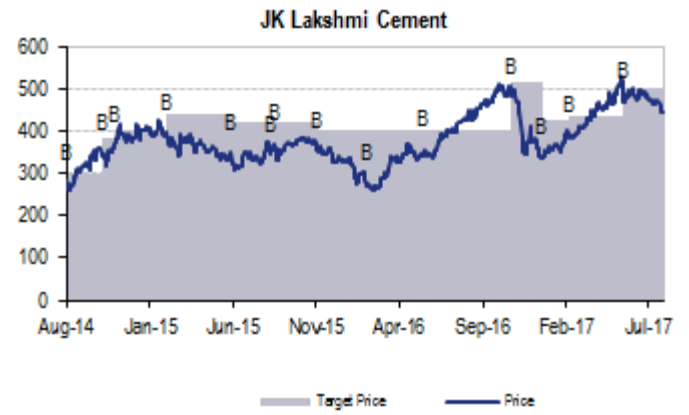
Key Ratios						
Y/E March	FY16A	FY17A	FY18E	FY19E	FY20E	
BV/Share (Rs.)	110.8	117.4	128.2	149.3	175.3	
ROIC	-0.4%	8.4%	11.2%	18.0%	21.9%	
ROE	0.3%	6.1%	11.4%	19.9%	20.9%	
Net Debt/Equity (x)	1.3	1.4	1.2	0.8	0.4	
P/E (x)	1,269.8	64.6	32.1	16.3	13.3	
P/B (x)	4.1	3.8	3.5	3.0	2.6	
EV/EBITDA (x)	25.7	19.9	13.9	9.6	7.8	
EV/Sales (x)	2.7	2.5	2.1	1.7	1.5	
Debtor days	13	11	12	12	12	
Inventory days	34	35	35	35	35	
Creditor days	31	38	55	72	83	

Source: Company, JM Financial

History of Earnings Estimate and Target Price

Date	FY18E EPS (Rs)	% Chg.	FY19E EPS (Rs)	% Chg.	Target Price	% Chg.
6-Jun-14					275	
18-Jul-14					300	9.1
5-Aug-14					300	0.0
10-Oct-14					385	28.3
31-Oct-14					400	3.9
5-Feb-15					440	10.0
1-Jun-15					420	-4.5
13-Aug-15	42.0				410	-2.4
19-Aug-15	42.0	0.0			420	2.4
6-Nov-15	43.1	2.6			400	-4.8
5-Feb-16	36.0	-16.5			400	0.0
19-May-16	34.5	-4.2			400	0.0
27-Oct-16	29.7	-13.9	47.4		515	28.8
19-Dec-16	14.7	-50.5	29.8	-37.1	425	-17.5
7-Feb-17	13.9	-5.2	27.0	-9.4	435	2.4
19-May-17	14.7	5.3	28.8	6.6	500	14.9

Recommendation History



APPENDIX I

JM Financial Institutional Securities Limited

Corporate Identity Number: U65192MH1995PLC092522

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SEBI Registration Nos.: BSE - INZ010012532, NSE - INZ230012536 and MSEI - INZ260012539, Research Analyst – INH000000610

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Definition of ratings	
Rating	Meaning
Buy	Total expected returns of more than 15%. Total expected return includes dividend yields.
Hold	Price expected to move in the range of 10% downside to 15% upside from the current market price.
Sell	Price expected to move downwards by more than 10%

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