

# JK Lakshmi Cement | BUY

## Stable quarter; cost saving initiatives to benefit in FY19

For 2QFY18, JK Lakshmi reported volumes in line with our estimates at 1.89MnT, +10% YoY, primarily on higher capacity vs. the base quarter. Realisations rose 8% YoY (sequential growth of 3.5%) primarily on a change in the sales pattern from Ex works to FOR. EBITDA/t at INR 505/t declined 7.4% YoY as the rise in power/fuel and freight costs more than offset realisations growth. It commissioned 7.5MW of WHR at its Durg unit, benefits of which would be seen going forward (c.INR 50/t in east). In addition, management expects c.INR 200/t cost saving from 20MW captive thermal power plant (4QFY19 commissioning). In the medium term, clinker capacity could be a bottleneck in east. We continue to value the stock at 9x EVE to arrive at a TP of INR 520 (Sep'18). Maintain BUY.

- Volume/realisations drive 18.5% revenue growth:** JK Lakshmi reported 2QFY18 revenues of INR 7.8bn, +18.5% YoY. It reported 1.89mnT of cement volumes (including 0.2MT of clinker sales), rising c.10% YoY (sequentially declined 17%) on capacity additions (Durg/Surat 1.25MTPA), in line with JMFe. Cement realisations at INR 3,935/t were 9% higher YoY (4.3% QoQ). Realisations growth was driven by a change in the sales pattern from Ex works to FOR. However, price cap in Chhattisgarh continued during 2QFY18. RMC sales stood at INR 330mn (flat YoY). In 2QFY18, the company's volumes grew 27% in the East and 6% in the North.
- Margins negatively impacted by power/fuel and freight costs:** 2QFY18 EBITDA at INR 954bn grew 1.9% YoY. EBITDA/t for the quarter declined 7.4% to INR 505/t from INR 545/t in 2QFY17 on an increase in power/fuel costs (negative impact of INR 272/t) on higher petcoke/coal prices and a rise in freight costs (negative impact of INR 170/t) on higher diesel prices, rail freight and change in the sales pattern more than offsetting the realisations growth (positive impact of INR 293/t) and lower raw material costs (positive impact of INR 104/t). The North and East operations have an EBITDA/t difference of INR 400/t (North being higher) due to the price difference (INR 300/t primarily on the price cap in Chhattisgarh) and cost difference of INR 100/t. Adjusted PAT declined to INR 132mn (vs. INR 249mn in 2QFY17).
- Other details:** i) The company has commissioned 7.5MW of WHR in Durg, which is expected to benefit partially in 3Q and completely from 4Q (INR 40-50/t benefit); ii) 20MW of thermal power plant in Durg is expected to come on stream in 4QFY19 (INR 200/t benefit); iii) it is using 85% of the petcoke in its Northern operations and 55%-60% of the petcoke in the Eastern operations (coal linkage available to the company in the East); iv) average petcoke cost for the company in 2QFY18 was INR 6,500/t; currently petcoke is being procured at INR7,500/t; v) as on 30Sep'17, gross debt stood at INR 22bn and net debt stood at INR 16.5bn with INR 5.25bn of additional debt on Udaipur.
- Maintain BUY:** JK Lakshmi is currently trading at 8.3/6.1x FY19/20E EV/EBITDA (standalone). We value the stock at 9x standalone EV/EBITDA and adjusting the UCWL stake to arrive at a TP of INR 520 (Sep'18). We maintain BUY.



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### Recommendation and Price Target

Current Reco.	BUY
Previous Reco.	BUY
Current Price Target (12M)	520
Upside/Downside	18.2%
Previous Price Target	520
Change	0.0%

### Key Data – JKLC IN

Current Market Price	INR440
Market cap (bn)	INR51.8/USD0.8
Free Float	55%
Shares in issue (mn)	117.7
Diluted share (mn)	117.7
3-mon avg daily val (mn)	INR65.9/USD1.0
52-week range	537/327
Sensex/Nifty	33,034/10,225
INR/USD	65.4

### Price Performance

%	1M	6M	12M
Absolute	14.3	-12.7	6.1
Relative*	12.3	-20.3	-13.9

\* 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

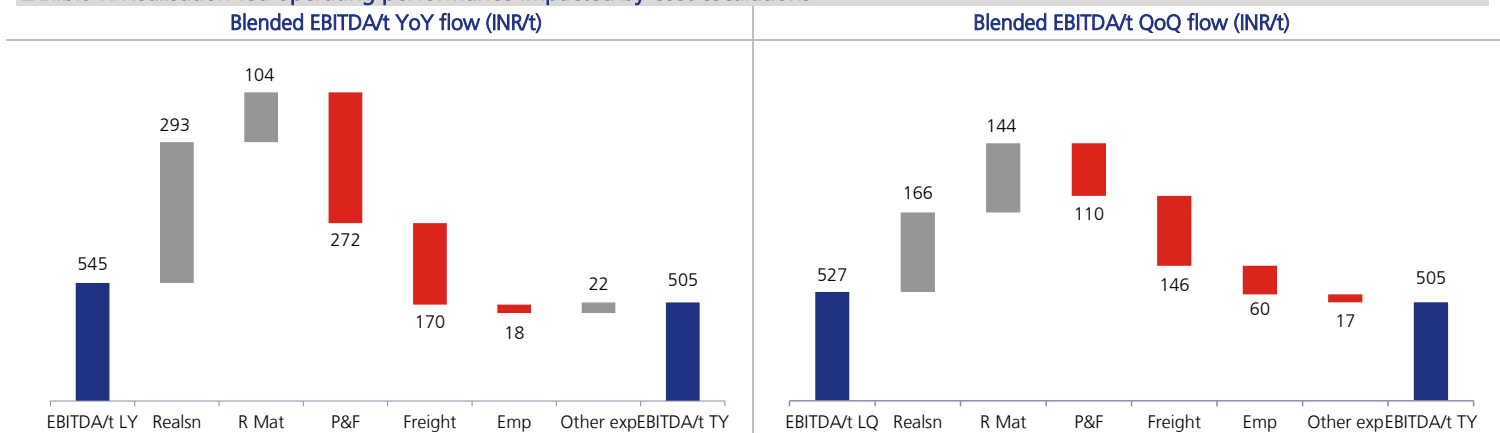
Y/E March	FY16A	FY17A	FY18E	FY19E	FY20E
Net Sales	26,154	29,064	35,540	40,523	45,088
Sales Growth (%)	13.7	11.1	22.3	14.0	11.3
EBITDA	2,720	3,654	4,682	6,556	8,164
EBITDA Margin (%)	10.4	12.6	13.2	16.2	18.1
Adjusted Net Profit	42	820	1,450	2,796	4,140
Diluted EPS (INR)	0.4	7.0	12.3	23.8	35.2
Diluted EPS Growth (%)	-97.4	1,866.5	76.8	92.8	48.1
ROIC (%)	-0.4	7.8	9.0	16.2	23.3
ROE (%)	0.3	6.1	10.1	17.5	22.2
P/E (x)	1,241.6	63.1	35.7	18.5	12.5
P/B (x)	4.0	3.7	3.5	3.0	2.6
EV/EBITDA (x)	26.1	20.1	14.8	9.9	7.4
Dividend Yield (%)	0.5	0.1	0.6	1.1	1.6

Source: Company data, JM Financial. Note: Valuations as of 13/Nov/2017

## Other con-call highlights

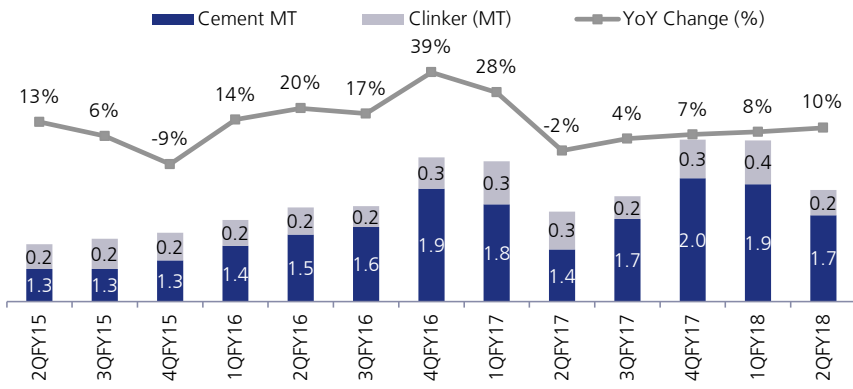
- The company is operating at 65% capacity utilisation in both its East and North operations
- OPC:PPC:PSC mix stood at 41%:55%:5% in 2QFY18
- Cement price caps applicable in Chhattisgarh still persist; management is confident of a resolution in 3QFY18
- Udaipur cement is operating at 50% capacity utilisation; expected to go up to 80% by 4QFY18
  - Management expects a better EBITDA as the utilisation level improves
  - EBITDA/t to improve up to Sirohi level in 4-5 quarters
- Northern market grew 2% in 2QFY18
- Cement realisation trends in 2QFY18 adjusting for change in the sales pattern
  - Realisations improved marginally in the North
  - Realisations dropped in the East on account of a price cap in Chhattisgarh
  - Prices in Gujarat have improved
- Region-wise power costs
  - 100% power is being procured from the grid at INR 7-7.5/unit
  - 22% power procured from the grid at INR 7-7.5/unit, 50% of the power requirement is fulfilled by TPP and the remaining is fulfilled by WHR
- Orissa grinding unit construction picked up pace in 2QFY18 and the unit is expected to be operational by 2QFY19
- The company incurred a capex of INR 1bn in 1HFY18 and expects to incur another INR 300mn-400mn in 2HFY18. For FY19, it expects capex of INR 1.3bn-1.4bn.
- Clinker sales reduced during the quarter as inter-company clinker sales declined due to clinker capacity commissioning in Udaipur.

**Exhibit 1. Realisation-led operating performance impacted by cost escalations**



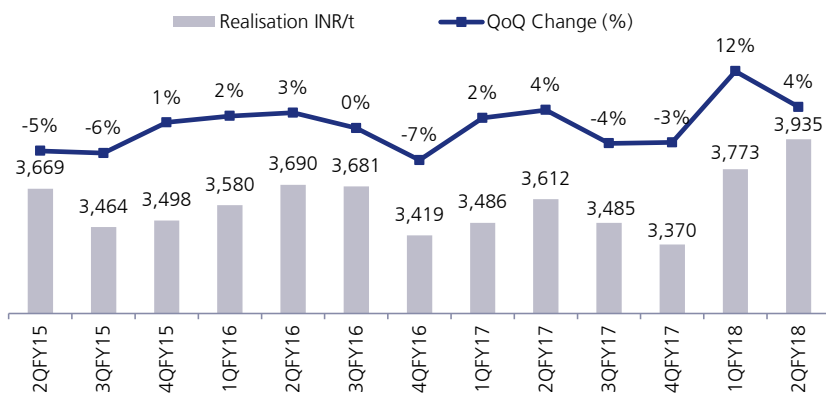
Source: Company, JM Financial

Exhibit 2. Cement volume trends



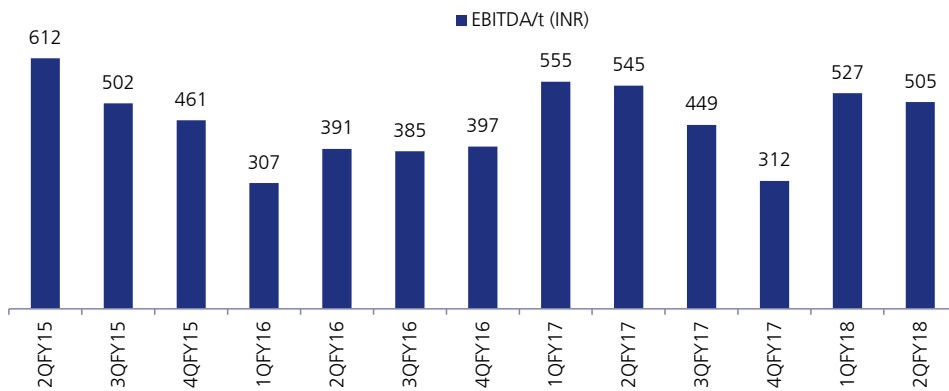
Source: Company, JM Financial

Exhibit 3. Cement realisation trends



Source: Company, JM Financial

Exhibit 4. EBITDA/t trends



Source: Company, JM Financial

## Exhibit 5. Results in brief

	(INR mn)										
	2QFY18	2QFY17	%YoY	1QFY18	%QoQ	1H FY18	1H FY17	%YoY	FY18E	FY17	%YoY
<b>Net Sales</b>	<b>7,767</b>	<b>6,556</b>	<b>18.5</b>	<b>9,011</b>	<b>-13.8</b>	<b>16,778</b>	<b>14,328</b>	<b>17.1</b>	<b>35,269</b>	<b>29,104</b>	<b>21.2</b>
Other Operating Income	0	0		0		0	0		271	0	
<b>Total Revenues</b>	<b>7,767</b>	<b>6,556</b>	<b>18.5</b>	<b>9,011</b>	<b>-13.8</b>	<b>16,778</b>	<b>14,328</b>	<b>17.1</b>	<b>35,540</b>	<b>29,104</b>	<b>22.1</b>
Expenditure	6,812	5,619	21.2	7,808	-12.8	14,620	12,216	19.7	30,897	25,450	21.4
<b>EBITDA</b>	<b>954</b>	<b>937</b>	<b>1.9</b>	<b>1,203</b>	<b>-20.7</b>	<b>2,158</b>	<b>2,112</b>	<b>2.2</b>	<b>4,643</b>	<b>3,654</b>	<b>27.1</b>
<b>% margin</b>	<b>12.3</b>	<b>14.3</b>	<b>-200 bps</b>	<b>13.4</b>	<b>-107 bps</b>	<b>12.9</b>	<b>14.7</b>	<b>-188 bps</b>	<b>13.1</b>	<b>12.6</b>	<b>51 bps</b>
Other income	169	179	-5.6	102	66.0	271	283	-4.3	756	698	8.3
Interest	489	471	3.8	492	-0.7	981	934	5.0	1,853	1,887	-1.8
Depreciation	447	412	8.5	439	1.8	886	824	7.5	1,773	1,724	2.8
<b>PBT</b>	<b>188</b>	<b>233</b>	<b>-19.4</b>	<b>374</b>	<b>-49.8</b>	<b>562</b>	<b>637</b>	<b>-11.8</b>	<b>1,773</b>	<b>742</b>	<b>138.9</b>
Tax	56	-16	-452.5	91	-39.1	147	102	44.4	363	-78	-564.8
% tax rate	29.6	-6.8		24.4		26.2	16.0		20.4	-10.5	
<b>PAT (Adjusted)</b>	<b>132</b>	<b>249</b>	<b>-46.9</b>	<b>283</b>	<b>-53.3</b>	<b>415</b>	<b>536</b>	<b>-22.4</b>	<b>1,410</b>	<b>820</b>	<b>72.0</b>
Extraordinary items	0	0		0		0	0		0	0	
<b>PAT (Reported)</b>	<b>132</b>	<b>249</b>	<b>-46.9</b>	<b>283</b>	<b>-53.3</b>	<b>415</b>	<b>536</b>	<b>-22.4</b>	<b>1,410</b>	<b>820</b>	<b>72.0</b>
EPS (INR)	1.1	2.1	-46.9	2.4	-53.3	3.5	4.5	-22.4	12.0	7.0	72.0
<b>Key Operational matrix</b>											
Cement sales (mn tonnes)	1.89	1.72	10.0	2.29	-17.3	4.18	3.84	8.8	8.75	7.96	9.8
Realisation (INR/tonne)	3,935	3,612	8.9	3,773	4.3	3,846	3,542	8.6	3,840	3,480	10.4
EBITDA INR/tonne	505	545	-7.4	527	-4.1	517	551	-6.1	500	459	8.9

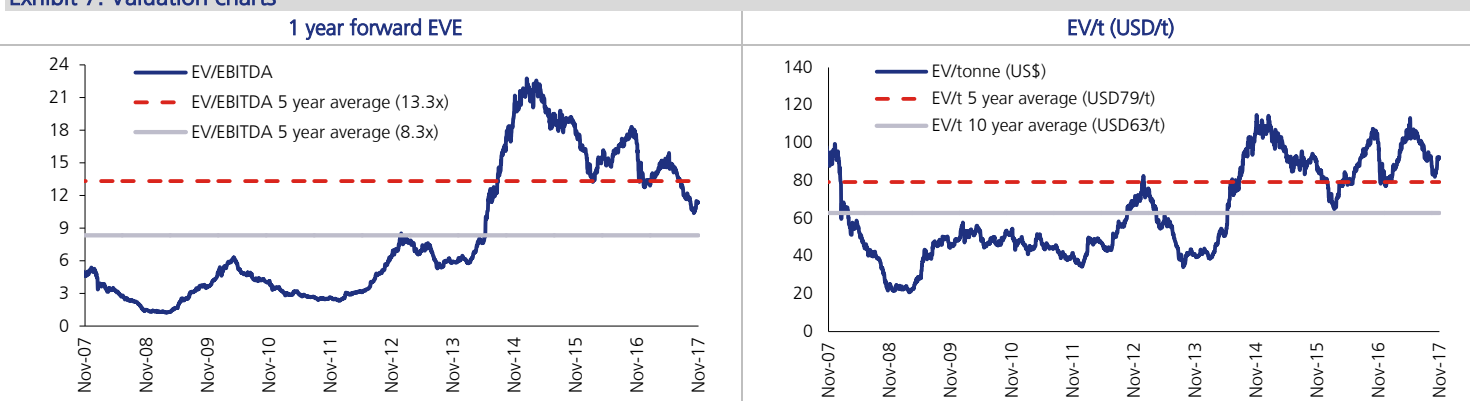
Source: Company, JM Financial

## Exhibit 6. Expenses breakdown

	(INR mn)										
	2QFY18	2QFY17	%YoY	1QFY18	%QoQ	1H FY18	1H FY17	%YoY	FY18E	FY17	%YoY
Raw material	1,329	1,130	17.6	1,439	-7.7	2,768	2,486	11.3	5,915	5,249	12.7
INR/tonne	703	658	6.9	630	11.6	663	648	2.3	676	659	2.6
Stock in trade	521	521	-0.1	810	-35.7	1,330	1,193	11.5	2,332	2,243	4.0
INR/tonne	276	303	-9.2	354	-22.2	319	311	2.4	267	282	-5.3
Power and fuel	1,795	1,165	54.1	1,920	-6.5	3,715	2,478	50.0	7,970	5,670	40.6
INR/tonne	950	678	40.1	840	13.0	890	646	37.8	911	712	28.0
Freight	2,046	1,568	30.5	2,140	-4.4	4,186	3,393	23.4	9,016	7,201	25.2
INR/tonne	1,082	912	18.6	937	15.6	1,003	885	13.3	1,031	904	14.0
(Inc)/dec in stock	-200	27	-847.2	76	-362.8	-124	131	-194.3	154	128	20.8
INR/tonne	-106	16	-779.2	33	-417.8	-30	34	-186.6	18	16	10.0
<b>Total Variable cost</b>	<b>5,491</b>	<b>4,410</b>	<b>24.5</b>	<b>6,385</b>	<b>-14.0</b>	<b>11,876</b>	<b>9,681</b>	<b>22.7</b>	<b>25,388</b>	<b>20,490</b>	<b>23.9</b>
INR/tonne	2,905	2,567	13.2	2,794	4.0	2,844	2,524	12.7	2,902	2,573	12.8
Staff cost	601	516	16.5	591	1.8	1,192	1,054	13.1	2,334	2,084	12.0
INR/tonne	318	301	5.9	259	23.0	286	275	3.9	267	262	2.0
Other expenditure	720	693	4.0	832	-13.5	1,552	1,481	4.8	3,175	2,876	10.4
INR/tonne	381	403	-5.5	364	4.6	372	386	-3.7	363	361	0.5
<b>Total fixed cost</b>	<b>1,321</b>	<b>1,209</b>	<b>9.3</b>	<b>1,423</b>	<b>-7.2</b>	<b>2,745</b>	<b>2,535</b>	<b>8.3</b>	<b>5,510</b>	<b>4,960</b>	<b>11.1</b>
INR/tonne	699	704	-0.6	623	12.2	657	661	-0.5	630	623	1.1

Source: Company, JM Financial

## Exhibit 7. Valuation charts



Source: Company, JM Financial

## Company background

- Established since 1982, JK Lakshmi is a leading Indian cement company in North India with annual turnover of INR 29bn (FY17). It has cement capacity of c.10.7MT currently, mainly in North India. It has wide network of c.70 cement dumps and over 2,200 dealers spread across the states of Rajasthan, Gujarat, Delhi, Haryana, UP, Punjab, J&K, MP and Maharashtra. It sells cement under the brand "JK Lakshmi (Mazbooti guaranteed)". It also sells 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 record c.10% CAGR over FY17-FY20E (ex-Udaipur).
- Among the most cost efficient players in the industry:** JKLC's cost parameters are comparable with the best in the industry. It has consistently improved its performance on energy efficiency and now boasts of one of the lowest energy consumption parameters in the country for cement production. The company also has one of the leanest overhead structures, which also provides a cost edge over competitors.
- Significant free cash flow generation FY17 onwards:** The only major capex remaining is for its 0.6MT grinding unit at Cuttack. Most of the capex for expansion projects was completed in FY17. We expect significant cash flow generation of INR 18.3bn over FY18-FY20E.

## Key Risks

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

## Valuation and View

- We value the stock at 9x EV/EBITDA to arrive at our TP of INR 520 (Sep'18). We maintain our BUY rating on the stock.

### Exhibit 8. Volumes, realisation and cost outlook

	FY16	FY17	FY18E	FY19E	FY20E
Cement Sales (mn tonnes)	6.5	6.8	7.6	8.4	9.1
YoY Growth (%)	26.9	5.5	11.4	9.9	9.2
Cement Realisations (INR/tonne)	3,458	3,641	4,005	4,206	4,374
YoY Growth (%)	-7.8	5.3	10.0	5.0	4.0
Power & Fuel (INR/tonne)	709	681	872	898	925
Freight (INR/tonne)	853	865	986	1,006	1,036
Raw Material (INR/tonne)	520	506	521	531	547
Cement EBIDTA (INR/tonne)	325	445	490	648	769

Source: Company, JM Financial

## Financial Tables (Standalone)

Income Statement		(INR mn)				
Y/E March	FY16A	FY17A	FY18E	FY19E	FY20E	
Net Sales	26,154	29,064	35,540	40,523	45,088	
Sales Growth	13.7%	11.1%	22.3%	14.0%	11.3%	
Other Operating Income	45	40	40	40	40	
<b>Total Revenue</b>	<b>26,199</b>	<b>29,104</b>	<b>35,580</b>	<b>40,562</b>	<b>45,127</b>	
Cost of Goods Sold/Op. Exp	3,838	4,336	4,915	5,423	5,928	
Personnel Cost	1,944	2,084	2,334	2,574	2,784	
Other Expenses	17,697	19,030	23,648	26,010	28,251	
<b>EBITDA</b>	<b>2,720</b>	<b>3,654</b>	<b>4,682</b>	<b>6,556</b>	<b>8,164</b>	
EBITDA Margin	10.4%	12.6%	13.2%	16.2%	18.1%	
EBITDA Growth	-22.2%	34.3%	28.1%	40.0%	24.5%	
Depn. & Amort.	1,629	1,724	1,773	1,861	1,930	
EBIT	1,091	1,930	2,910	4,695	6,235	
Other Income	486	698	756	656	701	
Finance Cost	1,967	1,887	1,853	1,856	1,761	
PBT before Excep. & Forex	-389	742	1,813	3,494	5,175	
Excep. & Forex Inc./Loss(-)	0	0	0	0	0	
PBT	-389	742	1,813	3,494	5,175	
Taxes	-431	-78	363	699	1,035	
Extraordinary Inc./Loss(-)	-107	0	0	0	0	
Assoc. Profit/Min. Int.(-)	0	0	0	0	0	
Reported Net Profit	-66	820	1,450	2,796	4,140	
<b>Adjusted Net Profit</b>	<b>42</b>	<b>820</b>	<b>1,450</b>	<b>2,796</b>	<b>4,140</b>	
Net Margin	0.2%	2.8%	4.1%	6.9%	9.2%	
Diluted Share Cap. (mn)	117.7	117.7	117.7	117.7	117.7	
<b>Diluted EPS (INR)</b>	<b>0.4</b>	<b>7.0</b>	<b>12.3</b>	<b>23.8</b>	<b>35.2</b>	
Diluted EPS Growth	-97.4%	1,866.5%	76.8%	92.8%	48.1%	
Total Dividend + Tax	283	35	339	654	969	
Dividend Per Share (INR)	2.0	0.2	2.5	4.8	7.0	

Source: Company, JM Financial

Balance Sheet		(INR mn)				
Y/E March	FY16A	FY17A	FY18E	FY19E	FY20E	
Shareholders' Fund	13,041	13,817	14,928	17,069	20,240	
Share Capital	589	589	589	589	589	
Reserves & Surplus	12,452	13,228	14,339	16,481	19,652	
Preference Share Capital	0	0	0	0	0	
Minority Interest	0	0	0	0	0	
Total Loans	19,147	21,706	21,556	20,556	19,556	
Def. Tax Liab. / Assets (-)	163	0	0	0	0	
<b>Total - Equity &amp; Liab.</b>	<b>32,350</b>	<b>35,523</b>	<b>36,483</b>	<b>37,625</b>	<b>39,796</b>	
Net Fixed Assets	30,126	30,314	30,941	29,996	30,066	
Gross Fixed Assets	28,922	31,607	34,107	36,107	38,107	
Intangible Assets	0	0	0	0	0	
Less: Depn. & Amort.	1,627	3,343	5,116	6,977	8,906	
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	12,238	16,372	20,349	
Inventories	2,406	2,776	3,408	3,886	4,323	
Sundry Debtors	965	895	1,168	1,332	1,482	
Cash & Bank Balances	118	90	3,995	7,488	10,877	
Loans & Advances	394	543	543	543	543	
Other Current Assets	2,707	3,124	3,124	3,124	3,124	
Current Liab. & Prov.	8,734	10,312	14,788	16,835	18,711	
Current Liabilities	1,987	2,648	7,124	9,172	11,048	
Provisions & Others	6,747	7,664	7,664	7,664	7,664	
Net Current Assets	-2,145	-2,884	-2,550	-463	1,638	
<b>Total - Assets</b>	<b>32,350</b>	<b>35,523</b>	<b>36,483</b>	<b>37,625</b>	<b>39,796</b>	

Source: Company, JM Financial

Cash Flow Statement		(INR mn)				
Y/E March	FY16A	FY17A	FY18E	FY19E	FY20E	
Profit before Tax	-389	742	1,813	3,494	5,175	
Depn. & Amort.	1,629	1,724	1,773	1,861	1,930	
Net Interest Exp. / Inc. (-)	1,932	1,865	1,853	1,856	1,761	
Inc (-) / Dec in WCap.	270	-127	3,571	1,406	1,288	
Others	-419	-548	-756	-656	-701	
Taxes Paid	-47	-26	-363	-699	-1,035	
<b>Operating Cash Flow</b>	<b>2,976</b>	<b>3,629</b>	<b>7,891</b>	<b>7,263</b>	<b>8,418</b>	
Capex	-1,458	-1,251	-2,400	-915	-2,000	
Free Cash Flow	1,518	2,379	5,491	6,348	6,418	
Inc (-) / Dec in Investments	725	-2,929	0	0	0	
Others	33	23	756	656	701	
<b>Investing Cash Flow</b>	<b>-700</b>	<b>-4,156</b>	<b>-1,644</b>	<b>-259</b>	<b>-1,299</b>	
Inc / Dec (-) in Capital	0	0	0	0	0	
Dividend + Tax thereon	-281	-44	-339	-654	-969	
Inc / Dec (-) in Loans	189	2,558	-150	-1,000	-1,000	
Others	-2,218	-2,016	-1,853	-1,856	-1,761	
<b>Financing Cash Flow</b>	<b>-2,311</b>	<b>499</b>	<b>-2,342</b>	<b>-3,510</b>	<b>-3,730</b>	
<b>Inc / Dec (-) in Cash</b>	<b>-35</b>	<b>-28</b>	<b>3,905</b>	<b>3,493</b>	<b>3,389</b>	
Opening Cash Balance	153	118	90	3,995	7,488	
Closing Cash Balance	118	90	3,995	7,488	10,877	

Source: Company, JM Financial

Dupont Analysis						
Y/E March	FY16A	FY17A	FY18E	FY19E	FY20E	
Net Margin	0.2%	2.8%	4.1%	6.9%	9.2%	
Asset Turnover (x)	0.8	0.9	1.0	1.1	1.2	
Leverage Factor (x)	2.5	2.5	2.5	2.3	2.1	
RoE	0.3%	6.1%	10.1%	17.5%	22.2%	

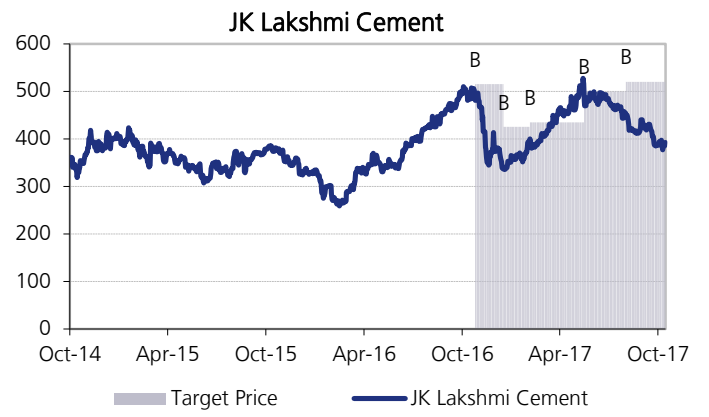
Key Ratios						
Y/E March	FY16A	FY17A	FY18E	FY19E	FY20E	
BV/Share (INR)	110.8	117.4	126.9	145.1	172.0	
ROIC	-0.4%	7.8%	9.0%	16.2%	23.3%	
ROE	0.3%	6.1%	10.1%	17.5%	22.2%	
Net Debt/Equity (x)	1.5	1.6	1.2	0.8	0.4	
P/E (x)	1,241.6	63.1	35.7	18.5	12.5	
P/B (x)	4.0	3.7	3.5	3.0	2.6	
EV/EBITDA (x)	26.1	20.1	14.8	9.9	7.4	
EV/Sales (x)	2.7	2.5	2.0	1.6	1.3	
Debtor days	13	11	12	12	12	
Inventory days	34	35	35	35	35	
Creditor days	31	38	84	98	109	

Source: Company, JM Financial

History of Earnings Estimate and Target Price

Date	FY18E EPS (INR)	% Chg.	FY19E EPS (INR)	% Chg.	Target Price	% Chg.
27-Oct-16	29.7		47.4		515	
19-Dec-16	14.7	-50.5	29.8	-37.1	425	-17.5
6-Feb-17	14.6	-0.7	27.4	-8.1	435	2.4
18-May-17	14.7	0.7	28.8	5.1	500	14.9
4-Aug-17	14.0	-4.8	27.6	-4.2	520	4.0

Recommendation History



## APPENDIX I

## JM Financial Institutional Securities Limited

Corporate Identity Number: U65192MH1995PLC092522

Member of BSE Ltd. and National Stock Exchange of India Ltd. and Metropolitan Stock Exchange of India Ltd.

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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