

JK Lakshmi Cement

24 May 2019

Reuters: JKLC.BO; Bloomberg: JKLC IN

Improved Performance: Clouds Still Not Clear

JK Lakshmi Cement (JKLC) reported an improved overall performance in 4QFY19, fully driven by 32% volume growth YoY. Cement realisation, adjusted with ready-mix concrete or RMC revenues of Rs410mn) was flat YoY at Rs3,989/tn (in line with our estimate of Rs3,919/tn). Realisation is range bound (+2%-2% band) for JKLC for the past eight quarters. The volume push in western and eastern regions led to a hit on realisation. Effectively, revenues grew ~31% YoY to ~Rs11.7bn (above our estimate of ~Rs9.42bn). Overall operating cost/tn were flat YoY at Rs3,543/tn (Rs3,565/tn in 4QFY18). Energy and logistics costs declined because of better lead distance management (reduction by ~14km) and better fuel mix and efficiencies, but this was offset by higher raw material costs and other expenses. Consequently, EBITDA grew ~30% YoY to ~Rs1.3bn. Volume-driven revenues led to EBITDA margin staying flat at 11.2% (~11.3% in 4QFY18). EBITDA/mt was down 2% YoY at Rs447 (Rs454/tn in 4QFY18). Lower interest costs pushed up JKLC's APAT 28% to Rs432mn (Rs339mn in 4QFY18). We believe the realisation off-take is likely to be a challenge for JKLC with its presence in crowded markets of Chhattisgarh in the eastern region and intense competition in the western region (post Binani cement assets acquired by UltraTech Cement). This, alongside volatile/high operating costs, is likely to limit margin expansion, although EBITDA/PAT may show growth because of a very weak base. We have retained our operating profit estimates for FY20/FY21 and also our EPS estimates. Our EPS estimates for FY20/FY21 stand at Rs9.1/Rs12.8, respectively. We expect the EBITDA margin to be range-bound at ~11%. Effectively, we have valued JKLC at a replacement cost of ~Rs4.2bn/mt (~35% discount to Rs7.5bn/mt earlier) to arrive at a fair value. Accordingly, we have retained Sell rating on the stock with a revised target price of Rs289 (from Rs253 earlier).

Volume takes a big leap, realisation range-bound: The volume jumped 31% YoY to 2.94mt including clinker sales of 0.20mt. Effectively, realization was flat YoY/ QoQ at Rs3,989/tn. Weak prices in the eastern region and higher non-trade sales in the western region (~55/60%) dampened realisation gains. Realisation has been range-bound for JKLC for the past eight quarters.

Operating costs inflation muted: Logistics costs fell ~11% YoY to Rs939/tn largely because of prudent lead distance management (reduction of ~14km). Energy costs also fell ~10% YoY to Rs872/tn because of better kiln operating efficiency. However, this was negated by higher raw material costs that rose sharply to Rs985/tn from rose Rs623/tn in 4QFY18. Overall operating costs, however, stayed flat YoY at Rs3,543/tn. EBITDA margin was flat at 11.2% versus 11.3% in 4QFY18 and marginally better than 10.5% in 3QFY19. EBITDA/tn fell 2% YoY to Rs447/tn.

Retain our estimates: The new Cuttack grinding unit (0.6mt) in Odisha and captive power plant in Durg are likely to be commissioned by 1QFY20. Volume/cost benefit of the same will be reflected in 2HFY20. Despite a better 4QFY19, we have continued with our EPS estimates of Rs9.1/Rs12.8 for FY20/FY21, respectively. We expect the EBITDA margin to be range-bound at ~11%. Our EBITDA estimates for FY20/FY21 remain unchanged at Rs4.39bn/Rs4.95bn, respectively. Faster cement price movement and also a sharp change in the business environment remains key risks to our earnings estimates.

Outlook: We believe realisation off-take is likely to be a challenge for JKLC with its presence in the crowded markets of Chhattisgarh in the eastern region and intense competition in the western region (post Binani cement assets acquired by UltraTech Cement). This, alongside volatile/high operating costs, is likely to limit margin expansion, although EBITDA/PAT may show growth because of a very weak base. JKLC has been one of the weak performers (below industry margins) despite its presence in multi-regions. Effectively, we have valued JKLC at a replacement cost of ~Rs4.2bn/mt (~35% discount to Rs7.5bn/mt earlier) to arrive at a fair value. Accordingly, we have retained Sell rating on the stock with a revised target price of Rs289 (from Rs253 earlier).

SELL

Sector: Cement

CMP: Rs 389

Target Price: Rs289

Downside: 24%

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Key Data

Current Shares O/S (mn)	117.7
Mkt Cap (Rsbn/US\$m)	44.3/636.5
52 Wk H / L (Rs)	387/250
Daily Vol. (3M NSE Avg.)	92,344

Price Performance (%)

	1 M	6 M	1 Yr
JK Lakshmi Cement	6.9	39.2	(1.3)
Nifty Index	1.0	12.5	12.7

Source: Bloomberg

Y/E March (Rsmn)	4QFY19	4QFY18	YoY %	3QFY19	QoQ %
Net Sales	11,725	8,970	30.7	9,350	25.4
Operating Expenses	10,412	7,957	30.9	8,367	24.4
EBITDA	1,312	1,013	29.6	983	33.6
EBITDA margin (%)	11.2	11.3	(10bps)	10.5	68bps
Other Income	166	264	(37.0)	137	21.2
Interest	446	480	(7.0)	471	(5.3)
Depreciation	458	459	(0.2)	451	1.7
PBT	574	338	70.0	198	190.3
Non-recurring items	-	-	-	-	-
PBT (after non recurring items)	574	338	70.0	198	190.3
Tax	142	(1)	(15,822.2)	50	-
Reported PAT	432	339	27.7	148	193.2
Adjusted PAT	432	339	27.7	148	193.2
NPM (%)	3.7	3.8	(9bps)	1.6	211bps
Adjusted EPS (Rs)	3.7	2.9	27.7	1.3	193.2

Source: Company, Nirmal Bang Institutional Equities Research

Key conference-call takeaways

- The raw material expenses were higher in the quarter because of higher external clinker procurement. JKLC purchased ~0.15mt of clinker to boost cement sales volume.
- The power plant in Durg is likely to be commissioned in 1QFY20. The benefit of the same will be reflected from 2HFY20 onwards. In 4QFY19 JKLC sold 65% PPC grade cement and 35% of OPC.
- Currently, JKLC's long-term debt is ~Rs16bn and Rs5.5bn debt of Udaipur Cement Works Ltd. There are no plans for further increase in debt for the next two years till a new expansion plan is decided by the management. The company has scheduled repayment of Rs2.8bn in FY20.
- Odisha grinding unit is also expected to be commissioned by 1HFY20 which will further help in lowering freight costs in the eastern region. The conveyor belt in the eastern unit is still not operational because of non-availability of land. The land parcel is yet to receive clearance and has taken longer-than-expected time.
- There are no further expansion plans indicated by the management for the next 18-24 months and capex will be limited only to maintenance capex. The Rs5bn fund raising is only an enabling resolution while the company does not have any expansion plan.

Exhibit 1: Operational details

(Rs)	4QFY19	4QFY18	YoY %	3QFY19	QoQ %	4QFY19E	Deviation %
Volume (mnmt)	2.94	2.23	31.7	2.35	25.1	2.37	24.2
Cement realisation (Rs/mt)	3,850	3,835	0.4	3,804	1.2	3,822	0.7
Operating costs (Rs/mt)	3,543	3,565	(0.6)	3,561	(0.5)	3,515	0.8
EBITDA (Rs/mt)	447	454	(1.6)	418	6.8	470	(5.0)

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 2: Detailed quarterly financials

(Rsmn)	4QFY19	4QFY18	YoY %	3QFY19	QoQ %	4QFY19E	Deviation %
Net sales	11,725	8,970	30.7	9,350	25.4	9,428	24.4
Expenditure							
Change in stock	573	(209)	(374.7)	118	386.2	(175)	(427.3)
Raw material consumed	2,323	1,598	45.4	1,674	38.8	1,715	35.4
Purchased products	496	562	(11.8)	414	19.9	438	13.3
Power & fuel costs	2,563	2,194	16.8	2,233	14.8	2,390	7.3
Freight costs	2,759	2,378	16.0	2,296	20.2	2,354	17.2
Employee costs	654	607	7.7	655	(0.3)	699	(6.5)
Other expenses	1,044	826	26.3	978	6.7	895	16.6
Total operating expenses	10,412	7,957	30.9	8,367	24.4	8,316	25.2
EBITDA	1,312	1,013	29.6	983	33.6	1,112	18.0
EBITDA margin (%)	11.2	11.3	(10bps)	10.5	68bps	11.8	(60bps)
Other income	166	264	(37.0)	137	21.2	135	23.0
Interest costs	446	480	(7.0)	471	(5.3)	478	(6.7)
Depreciation	458	459	(0.2)	451	1.7	460	(0.4)
PBT	574	338	70.0	198	190.3	309	85.8
Non-recurring items	-	-	-	-	-	-	-
PBT (after non-recurring items)	574	338	70.0	198	190.3	309	85.8
Tax	142	(1)	(15,822)	50	181.9	93	52.7
Tax rate (%)	25	(0)	(9,350.5)	25	(2.9)	30	(17.8)
Reported PAT	432	339	27.7	148	193.2	216	100.0
Adjusted PAT	432	339	27.7	148	193	216	100.0
NPM (%)	3.7	3.8	(9bps)	1.6	211bps	2.3	139bps
Adjusted EPS (Rs)	3.7	2.9	27.7	1.3	193	1.8	100.0

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 3: Trend in operating costs/mt

Operating costs/mt(Rs)	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	YoY %	QoQ %
Consumption of raw material	746	663	594	630	623	789	704	762	985	58.3	29.3
Power and fuel costs	734	840	945	972	983	940	1,059	950	872	(11.3)	(8.2)
Freight costs	922	937	1,077	1,025	1,065	1,074	950	977	939	(11.9)	(3.9)
Total costs per mt	3,210	3,417	3,585	3,523	3,565	3,627	3,572	3,561	3,543	(0.6)	(0.5)

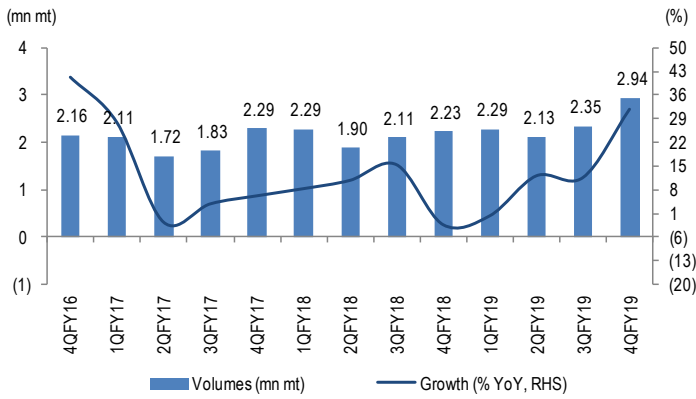
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 4: Estimates maintained

(Rsmn)	Old		New		Variance (%)	
	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
Net sales	39,875	44,679	39,875	44,679	-	-
Operating profit	4,399	4,950	4,396	4,948	(0.1)	(0.0)
Net profit	1,067	1,508	1,066	1,507	(0.1)	(0.1)
EPS (Rs)	9.1	12.8	9.1	12.8	(0.1)	(0.1)
Target price (Rs)	253		289			
Rating	Sell		Sell			

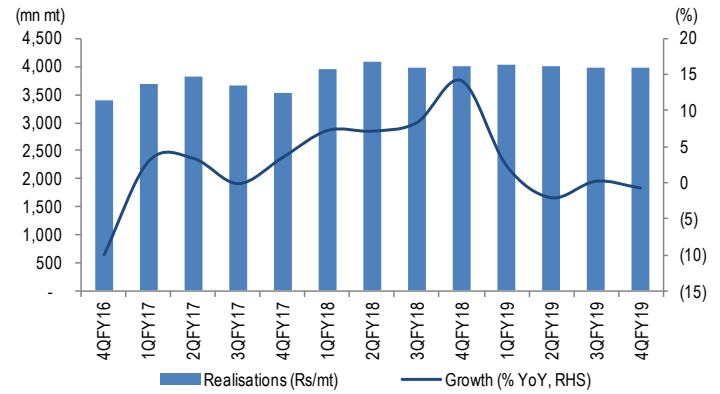
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 5: 30% bumper volume growth drives performance



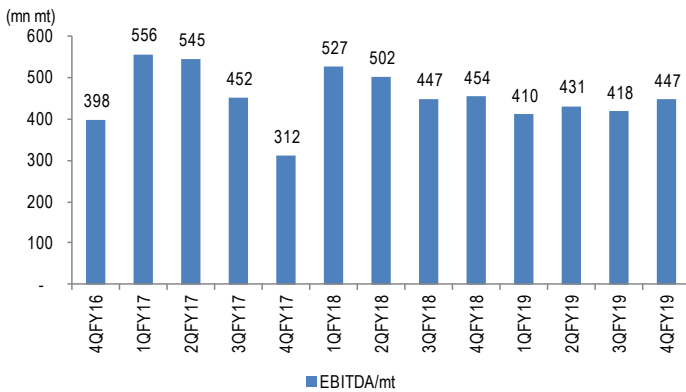
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 6: Eastern & western regions keep realisation growth in check



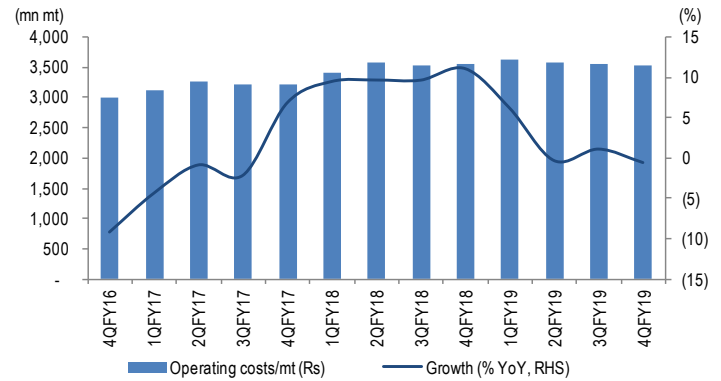
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 7: EBITDA/tn continues to be on a weak trajectory



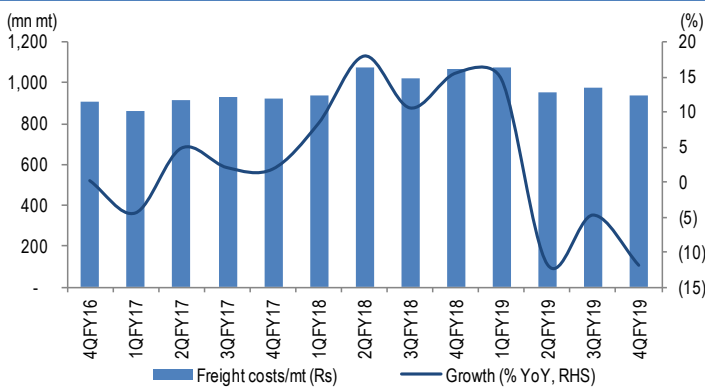
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 8: Higher raw material costs offset cost benefits



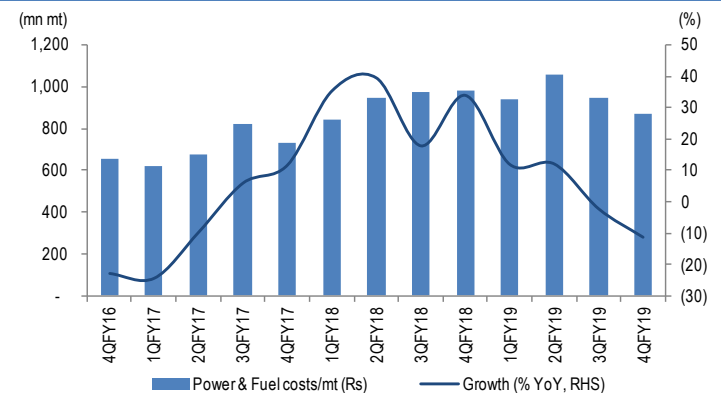
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 9: Better lead distance management helps reduction in logistics costs



Source: Company, Nirmal Bang Institutional Equities Research

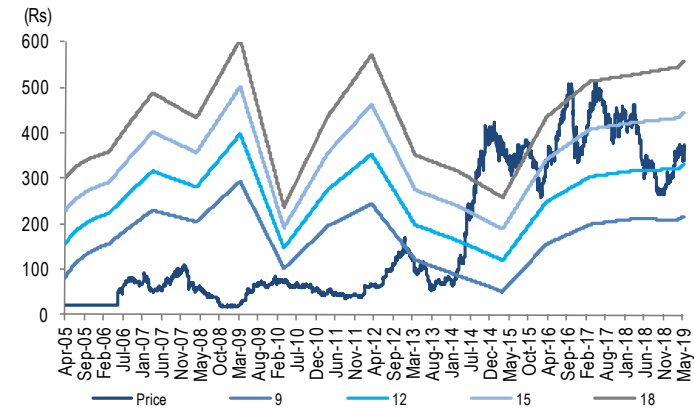
Exhibit 10: Energy costs well contained



Source: Company, Nirmal Bang Institutional Equities Research

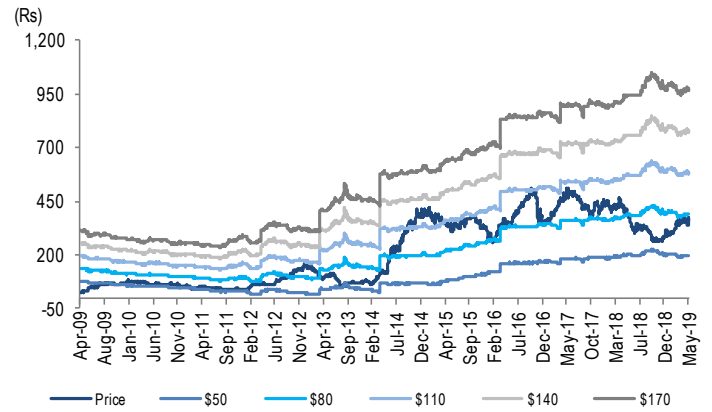
Exhibit 11: Valuation charts

EV/EBITDA



Source: Company, Nirmal Bang Institutional Equities Research

EV/tn



Source: Company, Nirmal Bang Institutional Equities Research

Financials

Exhibit 12: Income statement

Year Y/E March (Rsmn)	FY17	FY18	FY19	FY20E	FY21E
Net sales	29,104	34,122	38,823	39,875	44,679
<i>growth (%)</i>	11.1	17.2	13.8	2.7	12.0
Operating expenses	(25,450)	(30,008)	(34,673)	(35,479)	(39,731)
EBITDA	3,654	4,114	4,150	4,396	4,948
<i>growth (%)</i>	35.3	12.6	0.9	5.9	12.6
Depreciation & amortisation	(1,724)	(1,793)	(1,794)	(1,723)	(1,751)
EBIT	2,629	3,002	2,919	3,257	3,806
Other income	698	681	563	584	609
Interest paid	(1,887)	(1,975)	(1,874)	(1,953)	(1,957)
Extraordinary/exceptional items					
PBT	742	1,027	1,044	1,303	1,849
Tax	78	(188)	(272)	(238)	(342)
<i>Effective tax rate (%)</i>	10.5	(18.3)	(26.1)	(18.3)	(18.5)
Net profit	820	839	772	1,066	1,507
Minority interest	-	-	-	-	-
Reported net profit	820	839	772	1,066	1,507
Non-recurring items	-	-	-	-	-
Adjusted net profit	820	839	772	1,066	1,507
<i>growth (%)</i>	382.1	2.4	(8.0)	38.0	41.4

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 14: Balance sheet

Y/E March (Rsmn)	FY17	FY18	FY19	FY20E	FY21E
Cash & Bank balances	90	116	271	1,031	1,141
Other Current assets	12,335	11,016	10,016	11,757	13,700
Investments	3,095	3,539	3,539	3,539	3,539
Net fixed assets	30,285	30,183	30,468	29,313	28,291
Goodwill & intangible assets	29	33	33	33	33
Other non-current assets	-	-	220	-	-
Total assets	45,834	44,887	44,547	45,673	46,704
Current liabilities	12,354	12,241	12,377	9,685	10,461
Borrowings	19,663	18,114	16,703	19,009	18,259
Other non-current liabilities	-	-	-	550	150
Total liabilities	32,017	30,355	29,080	29,244	28,870
Share capital	589	589	589	589	589
Reserves & surplus	13,228	13,943	14,879	15,841	17,245
Shareholders' funds	13,817	14,532	15,468	16,430	17,834
Minority interest	-	-	-	-	-
Total equity & liabilities	45,834	44,886	44,547	45,673	46,704

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 13: Cash flow

Y/E March (Rsmn)	FY17	FY18	FY19	FY20E	FY21E
Pre-tax profit	742	1,027	1,044	1,303	1,849
Depreciation	(13,381)	1,784	1,806	1,723	1,751
Chg in working capital	5,192	611	675	(5,375)	(666)
Total tax paid	(789)	(188)	(492)	532	(742)
Other operating activities	-	-	-	-	-
Operating CF	(8,236)	3,235	3,034	(1,816)	2,192
Capital expenditure	13,735	(1,686)	(2,091)	(568)	(730)
Chg in investments	(4,087)	151	461	942	(500)
Other investing activities	-	-	-	-	-
Investing CF	9,648	(1,535)	(1,630)	373	(1,230)
FCF	1,412	1,700	1,403	(1,443)	962
Equity raised/(repaid)	0	(0)	(0)	(0)	(0)
Debt raised/(repaid)	(1,103)	(1,549)	(1,411)	2,306	(750)
Dividend (incl. tax)	(35)	(106)	(88)	(88)	(88)
Other financing activities	(302)	(18)	252	(15)	(14)
Financing CF	(1,440)	(1,674)	(1,248)	2,203	(853)
Net chg in cash & bank bal.	(28)	26	155	760	109
Closing cash & bank bal	90	116	271	1,031	1,141

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 15: Key ratios

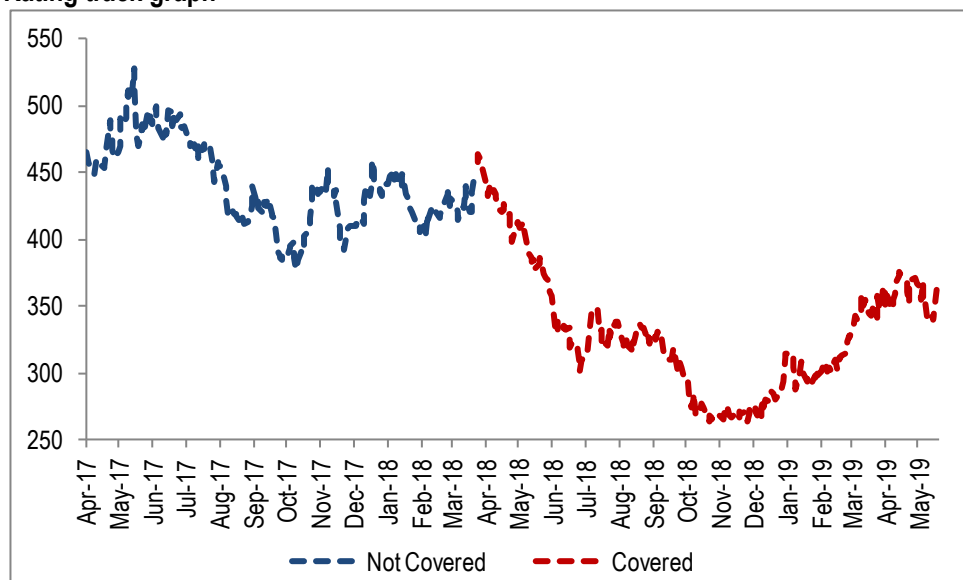
Y/E March (Rsmn)	FY17	FY18	FY19	FY20E	FY21E
Profitability and return ratios (%)					
EBITDAM	12.6	12.1	10.7	11.0	11.1
EBITM	9.0	8.8	7.5	8.2	8.5
NPM	2.8	2.5	2.0	2.7	3.4
RoE	6.0	5.9	5.1	6.7	8.8
RoCE	7.7	9.1	9.0	9.6	10.5
RoIC	10.3	9.8	8.8	10.1	11.0
Per share data (Rs)					
O/s shares	117.7	117.7	117.7	117.7	117.7
EPS	7.0	7.1	6.6	9.1	12.8
FDEPS	7.0	7.1	6.6	9.1	12.8
CEPS	21.6	22.4	21.8	23.7	27.7
BV	117.4	123.5	131.4	139.6	151.5
DPS	0.3	0.9	0.8	0.8	0.8
Valuation ratios (x)					
PE	54.5	53.2	57.9	42.0	29.7
P/BV	3.2	3.1	2.9	2.7	2.5
EV/EBITDA	16.2	14.2	13.8	13.6	11.8
EV/Sales	2.0	1.7	1.5	1.5	1.3
Other key ratios					
D/E (x)	1.1	0.9	0.8	0.9	0.8
DSO (days)	11.2	10.4	10.0	15.0	16.0
Du Pont Analysis - RoE					
NPM (%)	2.8	2.5	2.0	2.7	3.4
Asset turnover (x)	0.7	0.8	0.9	0.9	1.0
Leverage factor (x)	3.3	3.2	3.0	2.8	2.7
RoE (%)	6.0	5.9	5.1	6.7	8.8

Source: Company, Nirmal Bang Institutional Equities Research

Rating track

Date	Rating	Market price (Rs)	Target price (Rs)
26 March 2018	Sell	444	389
18 May 2018	Sell	380	359
6 June 2018	Sell	330	312
6 August 2018	Sell	310	333
16 November 2018	Sell	270	253
11 February 2019	Sell	304	253
9 April 2019	Sell	313	253
24 May 2019	Sell	389	289

Rating track graph



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SELL < -5%

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