

JK Lakshmi Cement

7 February 2013

Reuters: JKLC.BO; Bloomberg: JKLC IN

Operating Performance Above Estimates

JK Lakshmi Cement's (JKCL) 3QFY13 operating performance was better than our as well as Bloomberg consensus estimates, with EBITDA at Rs982mn (up 4.2% YoY) versus our estimate of Rs884mn, primarily led by higher realisation versus our estimate. Consequently, net profit at Rs412mn (down 16.2% YoY) was above our estimate of Rs 312mn and Bloomberg consensus estimate of Rs390mn. We have downward revised our FY13E earnings by 10% to factor in lower sales volume growth in 4QFY13E. We continue to believe that cement demand will improve in the coming months, leading to a rise in cement prices and overall performance of the company. Hence, we have retained our earnings estimates for FY14 and FY15 and also our Buy rating on the stock with a revised target price of Rs203 (from Rs214 earlier).

Cement realisation better than our expectations: Net sales rose 12.2% to Rs4.93bn, 9%/1% above our/Bloomberg consensus estimates, respectively primarily driven by higher realisation and better sales volume than our estimates. Cement realisation increased 9.8%YoY but declined 3.2% QoQ to Rs3,931/tn (against our estimate of a decline of 4.5% QoQ). Cement sales volume increased 2.1% YoY to 1.26mt.

EBITDA/tn marginally up at Rs781/tn: The company posted a rise in EBITDA by 4.2% to Rs982mn (above our estimate of Rs884mn and Bloomberg consensus estimate of Rs910mn). Despite power and fuel costs declined by 17.6% to Rs725/tn driven by fall in pet coke price to Rs6,500/tn from Rs7,000/tn and efficient electricity usage, total operating costs increased 12% to Rs3,149/tn (broadly in line with our estimate), primarily due to the rise in freight costs by 23% to Rs829/tn due to higher diesel prices and increase in rail freight rates. EBITDA/tn increased by only 2% YoY to Rs781/tn. The company posted a decline in net profit by 16.2% to Rs412mn, but it was above our estimate of Rs 312mn and Bloomberg consensus estimate of Rs 390mn led by better operating performance.

Major capex plan on track: The company's plan to set up a 2.7mt greenfield cement plant at a cost of Rs13bn at Durg (Chhattisgarh) is on track and is expected to be commissioned by the end of FY14, but split grinding units in Orissa may get delayed by three months. Apart from this, it is setting up nine more RMC (ready-mix concrete) plants by the end of FY15E and has also started work on refurbishing Udaipur Cement Works (UCW) plant - having an installed capacity of 1.4mt - at a total cost of Rs5.5bn and it will be completed by the end of 2QFY14E. Overall, this would double the capacity in next two years.

Valuation: We have retained our Buy rating on the stock with a revised target price of Rs203 from Rs214 earlier. Our target price is based on EV/EBITDA multiple of 3.8x FY14E earnings and implies EV/tn of US\$76, which is at significant discount to replacement costs and the valuation of large-cap companies. Given the likely robust earnings performance over FY13E-15E, higher capacity utilisation, gradual capex for sustainable volume growth and attractive valuation, we believe the stock provides a good investment opportunity.

BUY

Sector: Cement

CMP: Rs134

Target Price: Rs203

Upside: 51%

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Key Data

Current Shares O/S (mn)	122.4
Mkt Cap (Rsbn/US\$m)	16.4/308.2
52 Wk H / L (Rs)	180/56
Daily Vol. (3M NSE Avg.)	361,838

Price Performance (%)

	1 M	6 M	1 Yr
JK Lakshmi Cement	(11.7)	33.8	118.6
Nifty Index	(0.8)	11.3	11.3

Source: Bloomberg

Y/E March (Rsmn)	3QFY12	2QFY13	3QFY13	Chg (YoY)%	Chg (QoQ)%	9MFY12	9MFY13	Chg (%)
Net sales	4,401	4,914	4,937	12.2	0.5	11,914	15,192	27.5
Total costs	3,459	3,786	3,955	14.3	4.5	9,769	11,857	21.4
EBITDA	942	1,128	982	4.2	(13.0)	2,145	3,335	55.5
EBITDA margin (%)	21.4	23.0	19.9	-	-	18.0	21.9	-
Other income	148	155	125	(15.7)	(19.5)	284	320	12.8
Interest costs	222	223	225	1.1	0.7	644	653	1.4
Depreciation	256	325	341	33.3	5.0	758	995	31.2
PBT	611	735	541	(11.6)	(26.5)	1,026	2,006	95.5
Tax	119	226	128	7.6	(43.4)	241	582	141.3
Adj. PAT	492	509	412	(16.2)	(18.9)	785	1,424	81.4

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 1: Financial summary

Y/E March (Rsmn)	FY11	FY12	FY13E	FY14E	FY15E
Net sales	13,168	17,111	20,800	25,200	31,609
EBITDA	1,908	3,280	4,653	6,046	7,988
EBITDA margin (%)	14.5	19.2	22.4	24.0	25.3
Net profit	591	1,088	2,001	2,641	3,363
EPS	4.8	8.9	17.0	22.4	28.6
PER (X)	29.2	15.9	8.3	6.3	4.9
P/BV (x)	1.6	1.5	1.3	1.1	0.9
EV/EBITDA	11.1	6.5	5.3	4.5	3.0
RoCE (%)	5.0	9.6	10.6	11.8	12.9
RoE (%)	5.7	9.8	16.0	18.5	20.3
EV/tn (\$)	82.8	74.4	86.2	86.6	44.0

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 2: Rs/tn trend

Description (Rs/tn)	3QFY12	4QFY12	1QFY13	2QFY13	3QFY13	YoY (%)	QoQ (%)
Sales volume (mt)	1.23	1.42	1.39	1.21	1.26	2.1	3.8
Cement realisation	3,578	3,717	3,842	4,061	3,931	9.8	(3.2)
Raw materials (incl. inventory)	540	961	813	774	987	82.9	27.4
Employee expenses	191	213	199	241	239	25.1	(0.5)
Power and fuel expenses	880	705	838	911	725	(17.6)	(20.4)
Freight and handling expenses	673	656	748	787	829	23.2	5.3
Other expenses	528	384	363	415	369	(30.2)	(11.2)
Total expenditure	2,812	2,918	2,961	3,129	3,149	12.0	0.7
EBITDA	766	801	881	933	782	2.1	(16.2)

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 3: Expenses as a percentage of sales

Description (%)	3QFY12	4QFY12	1QFY13	2QFY13	3QFY13
Raw materials (incl. inventory)	15.1	25.9	21.2	19.1	25.1
Employee expenses	5.4	5.7	5.2	5.9	6.1
Power and fuel expenses	24.7	19.0	21.8	22.5	18.5
Freight and handling expenses	18.9	17.7	19.5	19.4	21.1
Other expenses	14.8	10.3	9.5	10.3	9.4
EBITDA margin	21.5	21.6	23.0	23.0	19.9

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 4: Change in our earnings estimates

(Rsmn) Particulars	FY13E		
	Old estimates	New estimates	Deviation (%)
Net sales	22,000	20,800	(5.5)
EBITDA	5,130	4,653	(9.3)
PAT	2,217	2,001	(9.7)

Source: Company, Nirmal Bang Institutional Equities Research

Rating track

Date	Rating	Market price (Rs)	Target price (Rs)
25 December 2012	Buy	156	214
7 January 2013	Buy	161	214

Disclaimer

Stock Ratings Absolute Returns

BUY > 15%

HOLD 0-15%

SELL < 0%

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