

JK Lakshmi Cement

Performance Highlights

Quarterly results (Standalone)

Y/E March (₹ cr)	3QFY2013	2QFY2013	% chg qoq	3QFY2012	% chg yoy
Net revenue	494	491	0.4	440	12.2
Operating profit	98	113	(13.1)	94	4.2
OPM (%)	19.9	23.0	(311)bp	21.4	(153)bp
Net profit	41	51	(19.1)	49	(16.2)

Source: Company, Angel Research

JK Lakshmi Cement (JKLC)'s net profit in 3QFY2013 fell by 16.2% yoy impacted by steep increase in freight costs. Volume grew by a marginal 2.7% on a yoy basis. Realization rose by 9.8% on a yoy basis, but was down by 3.2% on a qoq basis.

OPM at 19.9%, down 153bp yoy: During 3QFY2013, JKLC registered a robust top-line growth of 12.2% yoy to ₹494cr. Volumes stood at ~1.26mn tonne, up 2.7% on a yoy basis, impacted by slowdown in cement demand in all of the company's markets. The company's volume performance is much better than the de-growth/flattish performance posted by some of its peers as demand remained subdued during the quarter. Cement realization grew by 9.8% yoy and stood at ₹3,689/tonne. OPM declined by 153bp yoy to 19.9%. Although power and fuel costs/tonne were down by 18.1% yoy aided by lower petcoke prices (down from ₹7,000/tonne in 2QFY2013 to ₹6,500/tonne in 3QFY2013) and better efficiency in power usage, freight costs/tonne shot up by 22.4% yoy due to increase in diesel prices and railway freight charges. EBITDA/tonne stood at ₹781, up 1.4% on a yoy basis. However, on a sequential basis it declined by a steep 16.1% on account of fall in realization.

Outlook and valuation: Going ahead, we expect JKLC to post a 29.3% CAGR in its bottom-line over FY2012-14, due to its presence in high growth regions. At the current market price, the stock is currently trading at an EV/tonne of US\$57 (on FY2014E capacity). **We recommend a Neutral rating on the stock.**

Key financials (Standalone)

Y/E March (₹ cr)	FY2011	FY2012	FY2013E	FY2014E
Net sales	1,319	1,718	2,119	2,478
% chg	(11.5)	30.3	23.3	17.0
Net profit	40	148	220	248
% chg	(83.4)	269.0	48.8	12.3
FDEPS (₹)	3.3	12.1	20.3	22.8
OPM (%)	13.9	19.1	22.9	22.3
P/E (x)	41.4	11.2	6.7	6.0
P/BV (x)	1.6	1.4	1.2	1.0
RoE (%)	3.9	13.3	17.9	17.7
RoCE (%)	4.7	8.7	13.0	12.8
EV/Sales (x)	1.6	1.2	0.8	1.1
EV/Tonne (US\$)	85	75	51	57
EV/EBITDA (x)	11.5	6.2	3.5	4.8

Source: Company, Angel Research

NEUTRAL

CMP	₹136
Target Price	-

Investment Period	-
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Stock Info

Sector	Cement
Market Cap (₹ cr)	1,663
Net Debt (₹ cr)	620
Beta	1.1
52 Week High / Low	172/58
Avg. Daily Volume	74,479
Face Value (₹)	5
BSE Sensex	19,485
Nifty	5,904
Reuters Code	JKLC.BO
Bloomberg Code	JKLC@IN

Shareholding Pattern (%)

Promoters	46.0
MF / Banks / Indian Fls	11.4
FII / NRIs / OCBs	9.9
Indian Public / Others	32.7

Abs. (%)	3m	1yr	3yr
Sensex	3.4	10.0	22.3
JKLC	6.8	109.9	86.4

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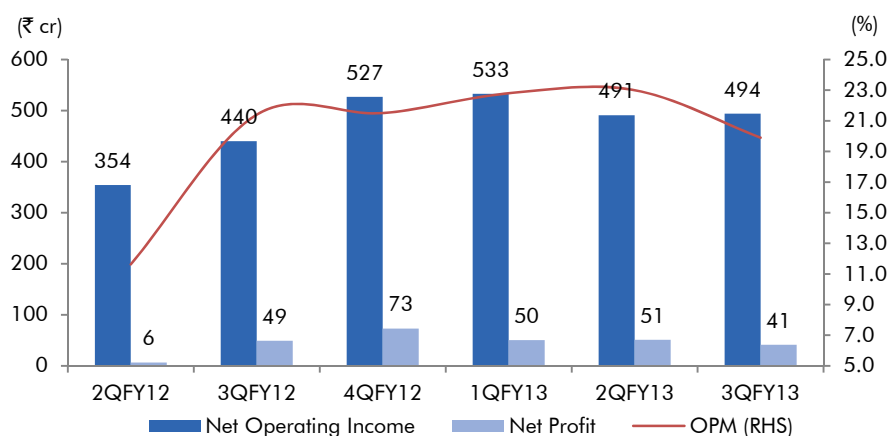
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Exhibit 1: Quarterly Performance (Standalone)

Y/E March (₹ cr)	3QFY2013	2QFY2013	% Chg	3QFY2012	% Chg	9MFY2013	9MFY2012	% Chg
Net sales	494	491	0.4	440	12.2	1,517	1,185	28.1
Net raw-material costs	124	94	32.4	83	50.1	331	231	42.9
(% of sales)	25.1	19.0		18.8		21.8	19.5	
Power & fuel	91	110	(17.3)	108	(15.9)	318	314	1.3
(% of sales)	18.5	22.4		24.6		20.9	26.5	
Staff costs	30	29	3.3	24	27.8	87	68	27.3
(% of sales)	6.1	5.9		5.3		5.7	5.8	
Freight & forwarding	104	95	9.3	83	25.8	303	238	27.2
(% of sales)	21.1	19.4		18.8		20.0	20.1	
Other expenses	46	50	(7.9)	49	(5.1)	147	125	17.7
(% of sales)	9.4	10.2		11.1		9.7	10.5	
Total Expenditure	396	378	4.5	346	14.3	1,185.7	977	21.4
Operating Profit	98	113	(13.1)	94	4.2	331	208	59.5
OPM	19.9	23.0	-	21.4	-	21.8	17.5	-
Interest	22	22	0.7	22	1.1	65	66	(1.2)
Depreciation	34	32	5.0	26	33.3	100	76	31.2
Other income	13	15	(19)	14.8	(15.2)	34	37	(7.3)
PBT (excl. Extr. Items)	54	74	(26.6)	61	(11.6)	201	103	95.5
Extr. Income/(Expense)	-	-	-	-	-	-	-	-
PBT (incl. Extr. Items)	54	74	(26.6)	61	(11.6)	201	103	95.5
Provision for taxation	13	23		12		58	24	141
(% of PBT)	23.7	30.7		19.5		29.0	23.5	
Adjusted PAT	41.2	51.0	(19.1)	49.2	(16.2)	142	78	81.4
PATM	8.4	10.4		11.2		9.4	6.6	
EPS (₹)	3.5	4.3		4.0		12.1	6.4	

Source: Company, Angel Research

Exhibit 2: Financial performance


Source: Company, Angel Research

Exhibit 3: 3QFY2013 – Actual vs Angel estimates

(₹ cr)	Actual	Estimates	Variation (%)
Net Sales	494	531	(7.0)
Operating Profit	98	112	(12.4)
OPM (%)	19.9	21.1	(123)bp
Net Profit	41	54	(23.2)

Source: Company, Angel Research

Performance highlights
Top-line up 12.2% yoy, driven by higher realization

During 3QFY2013, JKLC registered a robust top-line growth of 12.2% yoy to ₹494cr. Volumes stood at ~1.26mn tonne, up 2.7% on a yoy basis, impacted by slowdown in cement demand in all of the company's markets. The company's volume performance is much better than the de-growth/flattish performance posted by some of its peers as demand remained subdued during the quarter. Cement realization grew by 9.8% yoy and stood at ₹3,689/tonne. OPM declined by 153bp yoy to 19.9%. Although power and fuel costs/tonne were down by 18.1% yoy, aided by lower petcoke prices (down from ₹7,000/tonne in 2QFY2013 to ₹6,500/tonne in 3QFY2013) and better efficiency in power usage, freight costs shot up by 22.4% yoy due to increase in diesel prices and railway freight charges.

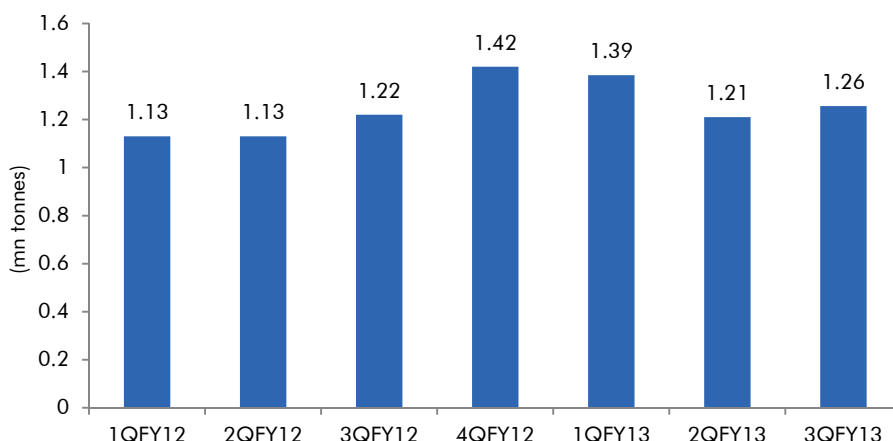
The company's overall operating costs/tonne too went up by 11.3% on a yoy basis. While raw material costs/tonne went up by 46.1% on a yoy basis, freight costs/tonne rose by 22.4% yoy. EBITDA/tonne stood at ₹781, up 1.4% on a yoy basis. However, on a sequential basis EBITDA/tonne declined by a steep 16.1% on account of fall in realization.

Exhibit 4: Per tonne analysis

Particulars (₹/tonne)	3QFY13	2QFY13	3QFY12	yoy chg (%)	qoq chg (%)
Net Realization/tonne	3,928	4,061	3,588	9.5	(3.3)
Raw-Material Cost/tonne	986	774	675	46.1	27.5
Power and Fuel cost/tonne	725	911	886	(18.1)	(20.4)
Freight Cost/tonne	828	787	677	22.4	5.2
Other Cost/tonne	369	415	399	(7.6)	(11.3)
Operating costs/tonne	3,148	3,128	2,829	11.3	0.6
Operating Profit/tonne	781	933	770	1.4	(16.4)

Source: Company, Angel Research

Exhibit 5: Volume performance



Source: Company, Angel Research

Update on Capacity addition plans

JKLC is embarking on a huge expansion plan which would double its overall capacity from the current 5.3mtpa capacity. The company's 2.7mtpa Greenfield plant at Durg is expected to be commissioned by FY2014-end. The clinker capacity at Durg would be 1.5mtpa, along with a 0.9mtpa grinding facility. The company has proposed to set up two grinding units in Durg and one in Orissa. The Orissa grinding unit is expected to be commissioned 3 months after the commissioning of the Durg plants. These expansions, when complete, would take the company's cement capacity to 8mtpa. JKLC is refurbishing the defunct plant of Udaipur Cement Works. The refurbished cement plant, with a capacity of 1.4mtpa, is expected to be operational by 2QFY2015.

Investment rationale

Presence in high growth region to result in healthy volume growth: JKLC has 60% and 40% exposure to the northern and western regions, with no exposure in south. We expect the company to post a healthy 13% CAGR in volumes over FY2012-14. The company's capacity addition plans are expected to propel its growth further.

High captive power usage to result in healthy profitability: JKLC has a power purchase tie-up with VS Lignite for 21MW power for the next 20 years at ₹3.2/unit (closer to its captive power cost) in addition to its current total captive power capacity of 66MW. Thus, effectively the company has access to 87MW of cheaper power, which is more than sufficient for its current capacity.

Outlook and valuation

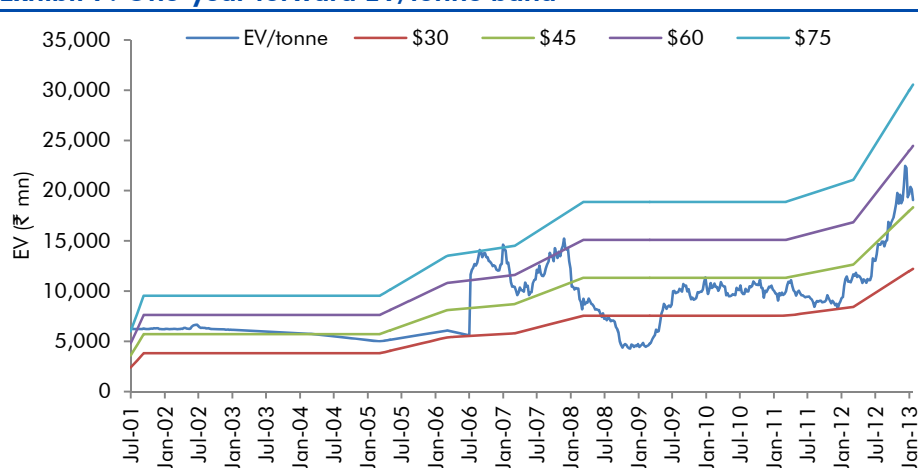
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Exhibit 6: Recommendation summary

Company	Reco	CMP (₹)	Tgt. Price (₹)	Upside (%)	FY2014E P/BV (x)	FY2014E P/E (x)	FY2012-14E EPS CAGR	FY2014E RoE (%)	EV/tonne ^ US \$
ACC*	Neutral	1,304	-	-	2.9	16.2	6.7	18.7	128
Ambuja Cements*	Neutral	190	-	-	3.3	15.1	24.3	20.7	175
India Cements	Neutral	84	-	-	0.7	7.9	5.5	9.0	64
JK Lakshmi	Neutral	136	-	-	1.0	6.0	37.3	17.7	54
Madras Cement	Neutral	237	-	-	2.0	12.7	7.3	16.9	87
Shree Cements#	Neutral	4,471	-	-	3.4	13.4	35.9	28.4	155
UltraTech Cements	Neutral	1,884	-	-	2.9	16.1	14.5	19.5	193

Source: Company, Angel Research; Note: *Y/E December; ^ Computed on TTM basis; #Y/E June

Exhibit 7: One-year forward EV/tonne band



Source: BSE, Company, Angel Research

Company Background

JK Lakshmi Cement (JKLC) is a mid-sized cement company with a current total capacity of 5.3mtpa spread across Rajasthan (4.2mtpa), Gujarat (0.5mtpa) and Haryana (0.55mtpa). The company also has plans to set up a 2.7mtpa green field plant at Durg in Chhattisgarh by FY2014-end. JKLC is refurbishing the defunct plant of Udaipur Cement Works. The refurbished cement plant, with a capacity of 1.4mtpa, is expected to be operational by 2QFY2015.

Profit and loss statement (Standalone)

Y/E March (₹ cr)	FY2009	FY2010	FY2011	FY2012	FY2013E	FY2014E
Total operating income	1,225	1,491	1,319	1,718	2,119	2,478
% chg	10.6	21.7	(11.5)	30.3	23.3	17.0
Total expenditure	914	1,066	1,136	1,390	1,634	1,926
Net raw material	182	234	204	368	428	491
Other mfg. costs	306	290	392	414	432	514
Personnel	69	85	81	98	123	135
Other	356	457	459	511	652	786
EBITDA	311	425	183	328	485	552
% chg	(11.6)	36.7	(56.9)	79.1	47.8	14.0
(% of net sales)	25.4	28.5	13.9	19.1	22.9	22.3
Depreciation & amortization	69	80	85	130	133	145
EBIT	241	345	99	198	352	407
% chg	(17.5)	42.7	(71.4)	101.1	77.4	15.8
(% of net sales)	19.7	23.1	7.5	11.5	16.6	16.4
Interest & other charges	50	55	60	80	92	112
Other income	34	35	21	63	49	47
(% of PBT)	14.9	10.5	26.8	44.4	16.0	13.7
Recurring PBT	226	324	60	182	309	343
% chg	(16.9)	43.7	(81.6)	204.5	70.0	10.8
Extraordinary expense/(Inc.)	(1)	(6)	(19)	39	-	-
PBT (reported)	227	331	79	143	309	343
Tax	48	90	20	34	89	95
(% of PBT)	21.2	27.1	25.0	23.8	28.8	27.8
PAT (reported)	179	241	59	109	220	248
ADJ. PAT	178	235	40	148	220	248
% chg	(27.4)	32.1	(82.9)	269.0	48.8	12.3
(% of net sales)	14.5	15.7	3.0	8.6	10.4	10.0
Basic EPS (₹)	14.5	19.2	3.3	12.1	20.3	22.8
Fully diluted EPS (₹)	14.5	19.2	3.3	12.1	20.3	22.8
% chg	(27.4)	32.1	(82.9)	269.0	67.9	12.3

Balance sheet (Standalone)

Y/E March (₹ cr)	FY2009	FY2010	FY2011	FY012	FY2013E	FY2014E
SOURCES OF FUNDS						
Equity Share Capital	61	61	61	61	54	54
Preference Capital	-	-	-	-	-	-
Reserves & Surplus	770	960	985	1,114	1,226	1,456
Shareholders' Funds	831	1,021	1,046	1,175	1,280	1,510
Total Loans	703	922	997	1,070	1,570	1,700
Deferred Tax Liability	35	92	107	123	123	123
Other long term liabilities			28	31	31	31
Long term provisions			3	4	4	4
Total Liabilities	1,569	2,035	2,182	2,403	3,008	3,367
APPLICATION OF FUNDS						
Gross Block	1,760	1,904	2,319	2,450	2,500	3,800
Less: Acc. Depreciation	747	841	938	1,121	1,254	1,399
Net Block	1,013	1,063	1,381	1,329	1,246	2,401
Capital Work-in-Progress	97	182	41	294	894	44
Investments	89	481	528	454	454	454
Long term loans and advances			191	369	369	369
Current Assets	632	666	297	339	510	631
Cash	327	220	89	89	117	146
Loans & Advances	216	341	61	92	208	277
Other	89	104	148	158	185	209
Current liabilities	262	357	256	383	466	532
Net Current Assets	370	309	42	(44)	45	99
Mis. Exp. not written off	-	-	-	-	-	-
Total Assets	1,569	2,035	2,182	2,403	3,008	3,367

Cash flow statement (Standalone)

Y/E March (₹ cr)	FY2009	FY2010	FY2011	FY012	FY2013E	FY2014E
Profit before tax	227	331	79	143	309	343
Depreciation	69	80	85	130	133	145
Change in working Capital	22	(45)	(12)	17	(60)	(26)
Less: Other income	34	35	21	63	49	47
Direct taxes paid	48	90	20	34	89	95
Cash flow from operations	236	241	111	193	244	320
(Inc)/ Dec in fixed Assets	(282)	(228)	(274)	(385)	(650)	(450)
(Inc)/ Dec in investments	(76)	(392)	(47)	74	-	-
Other income	34	35	21	63	49	47
Cash flow from investing	(324)	(585)	(300)	(247)	(601)	(403)
Issue of equity					(97)	
Inc./ (Dec.) in loans	(5)	219	75	73	500	130
Dividend paid (Incl. Tax)	29	36	18	18	18	18
others	(101)	(54)				
Cash flow from financing	67	238	57	55	385	112
Inc./ (Dec.) in cash	(21)	(106)	(132)	0	28	29
Opening cash balances	348	327	220	89	89	117
Closing cash balances	327	220	89	89	117	146

Key ratios (Standalone)

Y/E March	FY2009	FY2010	FY2011	FY012	FY2013E	FY2014E
Valuation ratio (x)						
P/E (on FDEPS)	9.4	7.1	41.4	11.2	6.7	6.0
P/CEPS	6.7	5.2	11.6	7.0	4.2	3.8
P/BV	2.1	1.7	1.6	1.4	1.2	1.0
Dividend yield (%)	1.7	2.2	1.1	1.1	1.2	1.2
EV/Sales	1.5	1.2	1.6	1.2	0.8	1.1
EV/EBITDA	6.1	4.2	11.5	6.2	3.5	4.8
EV / Total Assets	1.2	0.9	1.0	0.8	0.6	0.8
Per share data (₹)						
EPS (Basic)	14.5	19.2	3.3	12.1	20.3	22.8
EPS (fully diluted)	14.5	19.2	3.3	12.1	20.3	22.8
Cash EPS	20.2	26.2	11.7	19.5	32.6	36.2
DPS	2.3	2.9	1.5	1.5	1.6	1.6
Book Value	64.1	80.9	84.3	94.8	116.6	137.8
DuPont analysis (%)						
EBIT margin	19.7	23.1	7.5	11.5	16.6	16.4
Tax retention ratio	78.8	72.9	75.0	76.2	71.2	72.2
Asset turnover (x)	1.1	1.2	0.9	1.0	1.0	1.0
ROIC (Post-tax)	17.9	20.2	5.1	8.8	11.7	11.3
Cost of debt (Post Tax)	5.5	4.9	4.7	5.9	5.0	4.9
Leverage (x)	1.0	0.9	0.9	0.9	1.1	1.2
Operating ROE	29.6	33.6	5.5	11.6	18.9	18.8
Returns (%)						
ROCE (Pre-tax)	16.6	19.1	4.7	8.7	13.0	12.8
Angel ROIC (Pre-tax)	25.0	31.2	7.4	12.8	22.6	19.1
ROE	24.1	25.3	3.9	13.3	17.9	17.7
Turnover ratios (x)						
Asset turnover (Gross Block)	0.8	0.8	0.6	0.7	0.9	0.8
Inventory / Sales (days)	19	17	27	25	22	21
Receivables (days)	6	6	8	7	8	8
Payables (days)	88	106	98	84	95	95
WC cycle (ex-cash) (days)	16	16	6	(19)	(18)	(9)
Solvency ratios (x)						
Net debt to equity	0.3	0.2	0.4	0.4	0.8	0.7
Net debt to EBITDA	0.9	0.5	2.1	1.6	2.1	2.0
Interest coverage (EBIT/ Int.)	4.9	6.3	1.6	2.5	3.8	3.7

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Disclosure of Interest Statement	JK Lakshmi Cement
1. Analyst ownership of the stock	No
2. Angel and its Group companies ownership of the stock	No
3. Angel and its Group companies' Directors ownership of the stock	No
4. Broking relationship with company covered	No

Note: We have not considered any Exposure below ₹ 1 lakh for Angel, its Group companies and Directors

Ratings (Returns):	Buy (> 15%) Reduce (-5% to -15%)	Accumulate (5% to 15%) Sell (< -15%)	Neutral (-5 to 5%)
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