

## Valuation comfort; reiterate BUY!

JK Lakshmi Cement reported better-than-expected Q4FY20 numbers. Revenues for Q4FY20 fell 9.5% YoY to ₹ 1,061 crore (vs. I-direct estimates of ₹ 910 crore). Revenues declined on account of a 15.1% drop in volumes YoY to 2.5 MT (vs. I-direct estimate of 2.11 MT). Average realisations for the quarter were at ₹ 4,242 per tonne (vs. I-direct estimate of ₹ 4,320/t). Prices remaining high in north and west supported realisation growth. EBITDA margins of the company expanded 784 bps YoY to 19% while EBITDA/t increased 81% YoY to ₹ 808/t (vs. I-direct estimate of ₹ 650/t) led by improved realisations and benign costs (freight costs, power & fuel expenses reduced 8.6%, 7.9% YoY, respectively, on a per tonne basis). Absolute EBITDA increased 54% YoY to ₹ 202 crore (vs. I-direct estimate of ₹ 136.9 crore). Higher operating profit led to a sharp improvement in PAT, which increased 133% YoY to ₹ 100.8 crore (vs. I-direct estimate of 35.6 crore).

## Higher exposure to North, East to cushion volume decline

The cement industry is set to see a demand decline in FY21 due to disruption of construction activities led by labour migrating back to their home towns, lower tax income for the governments (central and state) combined with fiscal constraints. We expect private capex to slow down and housing demand to get delayed. However, rural and semi-urban areas have shown strength. These areas are among the least affected by the virus outbreak. Further, expectations of normal monsoon would drive rural demand, thus cushioning the broad level decline expected in volumes. Channel checks suggest demand has been much above expectations in the north, central and eastern regions. JK Lakshmi Cement derives majority of its revenues from these markets. Accordingly, we model volume decline of 13.7% and growth of 18.1% to 7.9 MT and 9.4 MT for FY21E and FY22E, respectively.

## No capex plans of company a blessing in disguise...

The company had plans to add new capacities as its current capacities were operating at high utilisation levels. Its B/S already has debt. With postponing of capex and deployment of cash towards debt repayment, JK Lakshmi's balance sheet strength would improve. This should lead the debt/EBITDA ratio to improve significantly from 3.9x in FY19 to 1.5x by FY22E.

## Valuation & Outlook

Despite the weak scenario, the company's B/S would remain healthy, with D/E not expected to cross 1x. RoCE and RoIC are expected to bounce back in FY22E to double digits. Furthermore, current levels imply that JK Lakshmi Cement is trading at an EV/t of \$33 and 4.4x FY22E EV/EBITDA, thus providing valuation comfort and considerable margin of safety. Thus, we maintain **BUY** rating on the company. Valuing JK Lakshmi Cement at 5.5x FY22E EV/EBITDA, we arrive at a target price of ₹ 260/share.



### Stock Data

Particular	Amount
Mcap	₹ 2425 crore
Debt (FY20)	₹ 1398 crore
Cash & Invest (FY20)	₹ 446 crore
EV	₹ 3376 crore
52 week H/L	₹ 395 / ₹ 180
Equity cap	₹ 59 crore
Face value	₹ 5

### Key Highlights

- Double digit volume decline of 16% in Q4FY20 owing to lockdown
- Rural demand supporting volumes currently. Operating at ~65% utilization with east plants having higher utilization
- Expansion plans kept at abeyance. Estimated capex outlay for FY21 is ₹ 140-150 crore
- Maintain BUY with a target price of ₹ 260 (earlier TP ₹ 235).

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### Key Financial Summary

Key Financials	FY18	FY19	FY20	FY21E	FY22E	CAGR (FY20-22E)
Net Sales	3412	3882	4044	3368	4077	0.4%
EBITDA	411	415	672	537	688	1.2%
EBITDA (%)	12.1	10.7	16.6	16.0	16.9	
PAT	84	80	265	146	262	-0.7%
EPS (₹)	7.1	6.8	22.6	12.4	22.2	
EV/EBITDA	9.1	8.7	5.0	6.0	4.4	
EV/Tonne (\$)	43	39	36	34	33	
RoNW	5.8	5.2	15.5	7.9	12.5	
RoCE	9.2	9.3	17.1	12.2	16.9	

**Exhibit 1: Variance Analysis**

	Q4FY20	Q4FY20E	Q4FY19	YoY (%)	Q3FY20	QoQ (%)	Comments
Net Sales	1061.2	909.8	1172.5	-9.5	1,005.0	5.6	Topline driven mainly by realisation growth amid improved pricing environment in the north
Other Incomes	22.5	7.0	16.6	35.5	14.7	53.1	
Raw Material Expenses	236.1	221.1	339.2	-30.4	258.8	-8.8	
Employee Expenses	76.0	73.7	65.4	16.2	75.7	0.4	
Power and fuel	200.5	198.0	256.3	-21.8	211.1	-5.0	P&F costs per tonne decline 6.5% YoY
Freight	214.0	193.8	275.9	-22.4	206.2	3.8	Logistics cost optimisation programme caused freight costs to be lower
Others	132.6	86.3	104.4	27.1	101.3	31.0	
EBITDA	202.0	136.9	131.2	53.9	151.9	33.0	
EBITDA Margin (%)	19.0	15.0	11.2	784 bps	15.1	392 bps	Strong growth in realisations leads to EBITDA margin expansion
Interest	42.5	42.8	45.8	-7.3	42.8	-0.8	
Depreciation	51.0	46.3	44.6	14.2	48.5	5.2	
Less: Exceptional Items	0.0	0.0	0.0	NA	0.0	NA	
PBT	131.1	54.8	57.4	128.4	75.3	74.0	
Total Tax	30.3	19.2	14.2	114.4	26.2	15.9	
PAT	100.8	35.6	43.3	132.9	49.2	104.9	
Adjusted PAT	100.8	35.6	43.3	132.9	49.2	104.9	PAT growth comes on the back of higher operational profits
<b>Key Metrics</b>							
Volume (MT)	2.47	2.11	2.95	-16.3	2.33	5.8	Volumes during the quarter got impacted by lockdown
Realisation (₹)	4,305	4,320	3,980	8.2	4,313	-0.2	
EBITDA per Tonne (₹)	820	650	445	84.0	652	25.7	Strong realisations boost EBITDA/t higher

Source: Company, ICICI Direct Research

**Exhibit 2: Change in estimates**

(₹ Crore)	FY21E			FY22E			Comments
	Old	New	% Change	Old	New	% Change	
Revenue	3,201.0	3,367.9	5.2	3,852.0	4,076.6	5.8	We factor in better realisation despite medium term slowdown in the overall demand
EBITDA	367.0	537.5	46.5	544.0	688.3	26.5	
EBITDA Margin (%)	11.5	16.0	449 bps	14.1	16.9	276 bps	Improvement in realisations and focus on cost rationalisation to push EBITDA margins higher

Source: Company, ICICI Direct Research

**Exhibit 3: Assumptions**

	Current					Earlier		Comments
	FY18	FY19	FY20P	FY21E	FY22E	FY21E	FY22E	
Volume (MT)	8.5	9.7	9.2	7.9	9.4	7.7	8.9	
Realisation (₹)	4,017	4,017	4,402	4,249	4,355	4,175	4,332.0	We marginally reduce realisation growth estimates
EBITDA per Tonne (₹)	484	429	732	678	735	475	612.0	Stronger pricing with focus on cost optimisation to improve EBITDA/t

Source: Company, ICICI Direct Research

## Conference call highlights

- **Current operations:** There has not been any major shift in region wise distribution. The company has been operating at around **65-70% of capacity currently, with east operating around 75%**. We expect an improvement in demand from Q3 only. Current demand is coming largely from rural regions
- **Volumes:** The company produced 2.015 MT during Q4FY20 vs. 2.615 MT in Q4FY19. Sales volume for the quarter was at 2.465 MT (clinker 0.33 MT) vs. 2.939 MT (clinker 0.209). For Udaipur Cement works, total volumes for the year were at 1.9 MT including 0.44 MT of clinker sales. Clinker utilisation for FY20 was at 95% of the 6.7 MT capacity
- **Pricing:** Broadly prices have remained unchanged in Gujarat and Maharashtra as demand has not been encouraging. Price hikes in the east and north have been to the tune of ₹ 10 per bag while in central they have been increased by ₹ 15 per bag
- **Petcoke:** The company is still carrying petcoke inventory. It has not made any future bookings as of now. Average cost of petcoke for FY20 was ₹ 7300/t vs. ₹ 8300/t in FY19. The same was at ₹ 7000/t for Q4FY20 vs. ₹ 8100 in Q4FY19. Fuel mix was at 20% coal and 80% petcoke
- **Capex and debt:** The company temporarily kept new expansion on hold. It had been planned for the north. JK Lakshmi would have gone ahead with that expansion had normalcy prevailed. Ongoing capex would entail outlay of ₹ 140-150 crore for FY21, with ₹ 120 crore to be spent towards Sirohi WHRMS and balance being maintenance capex. Outstanding debt as of March was ₹ 1450 crore and ₹ 250-270 crore will be repaid each year for the next two years
- **Others:** Trade sales form 80% of sales in east while in north they form about 55%. Premium product sales form 12-14% of trade sales in east and 20% In north. Absolute price differential in the east and north is ₹ 40-45 per bag while for the company, weighted average price differential is ₹ 20-25 per bag. Clinker sales generate ₹ 800-900 per tonne at the contribution level

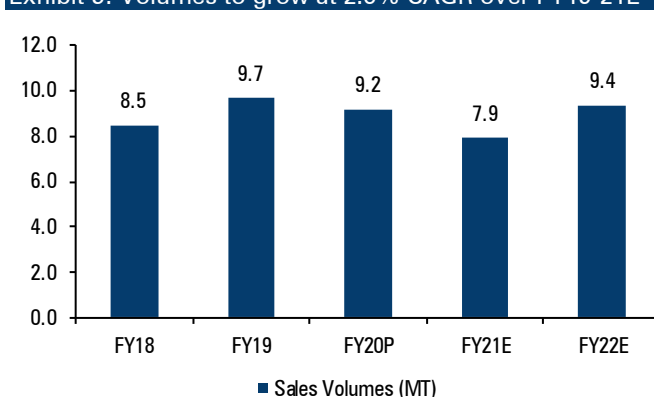
## Financial story in charts

**Exhibit 4: Cuttack GU commissioned**

	State	Region	MT
<b>Standalone Clinker capacity</b>			<b>6.7</b>
<b>Standalone Cement Capacity</b>			
	Rajasthan	North	4.9
	Gujarat	West	0.7
	Haryana	North	1.3
	Chhattisgarh	East	2.7
	Gujarat	West	1.3
	Odisha	East	0.8
<b>Total standalone cement capacity</b>			<b>11.7</b>
Rajasthan (Subsidiary)		West	1.6
<b>Total Capacity (Consolidated)</b>			<b>13.3</b>

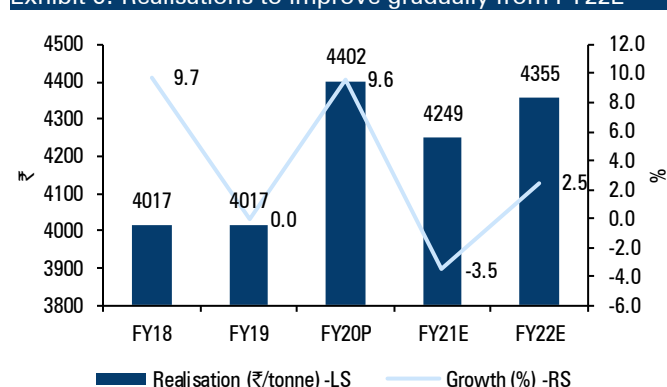
Source: Company, ICICI Direct Research

**Exhibit 5: Volumes to grow at 2.6% CAGR over FY19-21E**



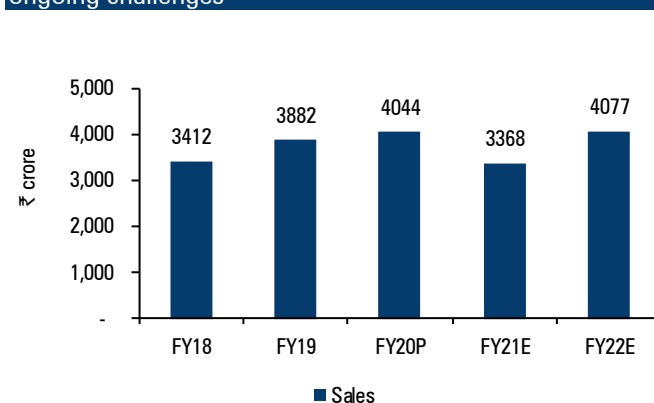
Source: Company, ICICI Direct Research

**Exhibit 6: Realisations to improve gradually from FY22E**



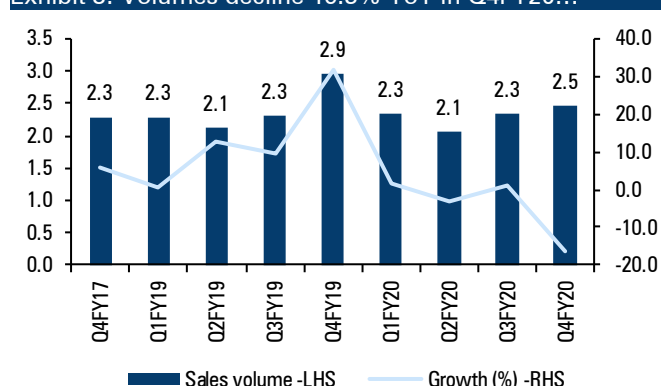
Source: Company, ICICI Direct Research

**Exhibit 7: Revenue CAGR to remain muted at 0.4% due to ongoing challenges**



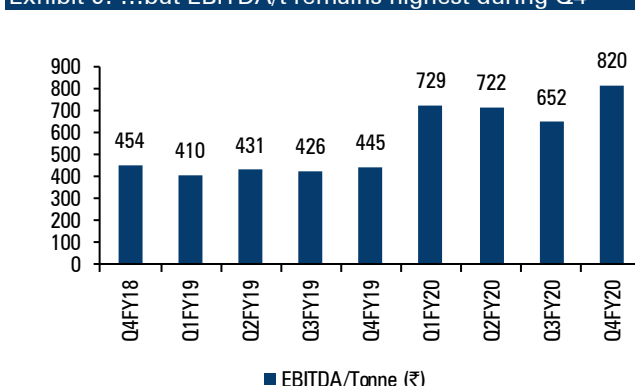
Source: Company, ICICI Direct Research

**Exhibit 8: Volumes decline 16.3% YoY in Q4FY20...**



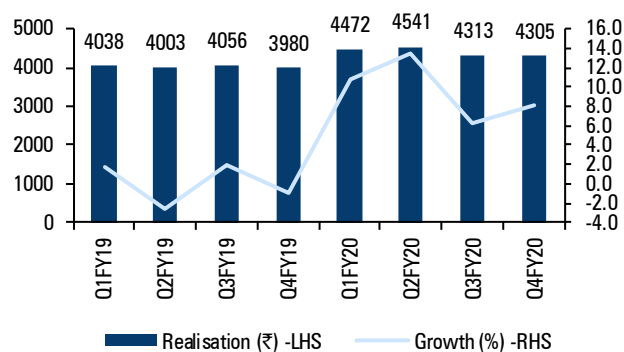
Source: Company, ICICI Direct Research

**Exhibit 9: ...but EBITDA/t remains highest during Q4**



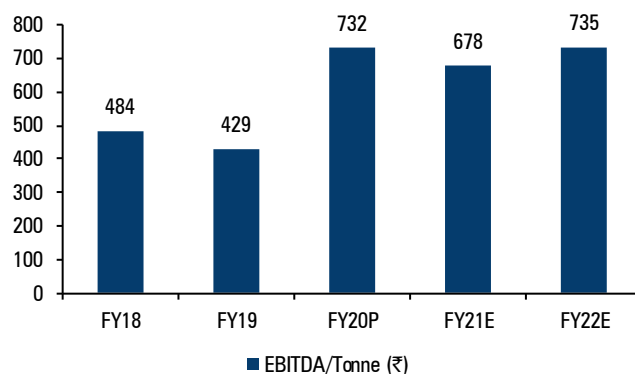
Source: Company, ICICI Direct Research

**Exhibit 10: Led by healthy realisations (up 8.2% YoY)**



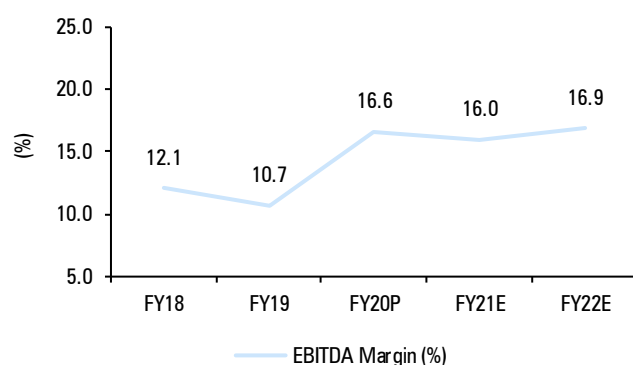
Source: Company, ICICI Direct Research

**Exhibit 11: EBITDA/t to improve led by strong realisations**



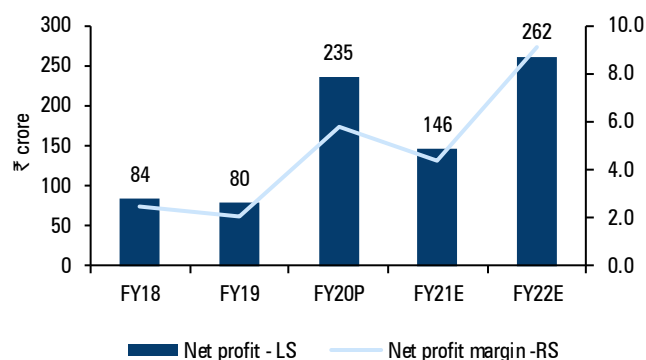
Source: Company, ICICI Direct Research

**Exhibit 12: Margins to reach ~17% in FY22E led by operating efficiency, better realisations**

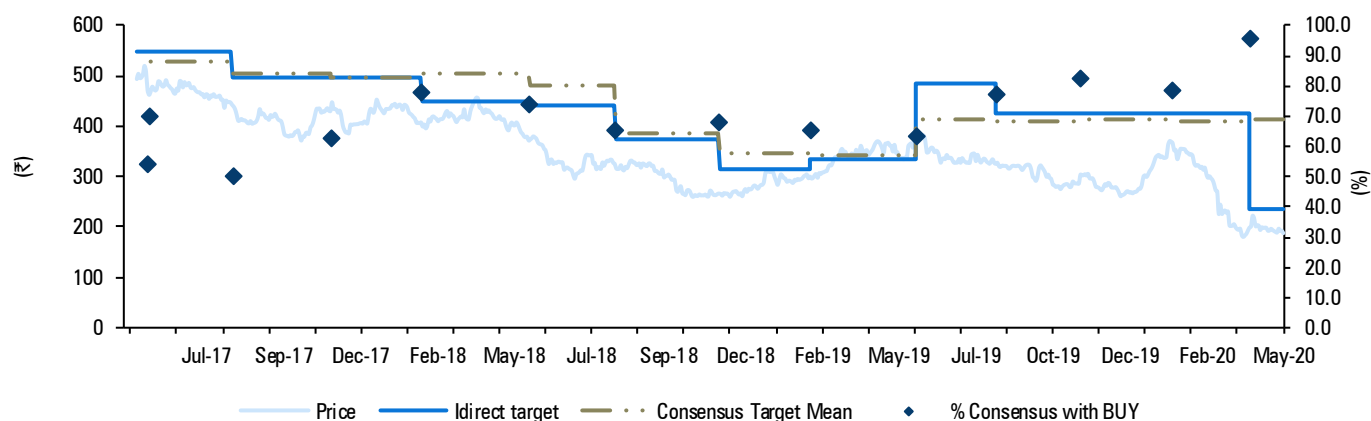


Source: Company, ICICI Direct Research

**Exhibit 13: PAT to improve led by improving operating profits**



Source: Company, ICICI Direct Research

**Exhibit 14: Recommendation History vs. Consensus**


Source: Bloomberg, Company, ICICI Direct Research

**Exhibit 15: Top 10 Shareholders**

Rank	Name	Last Filing Date	%O/S	Position (m)	Change (m)
1	Bengal & Assam Co Lt	31-Dec-19	44.5	52.4	0.0
2	Franklin Templeton M	31-Dec-19	9.5	11.2	0.0
3	Franklin Resources	30-Apr-20	9.2	10.9	0.0
4	Bansal Sachin	31-Dec-19	3.8	4.5	0.2
5	Government Pension F	31-Dec-19	2.6	3.1	0.0
6	Norges Bank	31-Dec-19	2.6	3.1	0.0
7	Axis Asset Managemen	30-Apr-20	2.6	3.0	0.0
8	Icici Prudential Ass	30-Apr-20	2.5	2.9	-0.2
9	India Capital Fund L	31-Dec-19	2.4	2.8	2.8
10	Hdfc Life Insurance	31-Dec-19	2.4	2.8	-0.4

Source: Company, ICICI Direct Research, Thomson Reuters

**Exhibit 16: Shareholding Pattern**

(in %)	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20
Promoter	45.94	45.93	45.93	45.93	46.21
FII	9.03	8.86	9.60	10.53	10.61
DII	20.42	20.44	20.55	18.71	18.96
Others	24.61	24.77	23.92	24.83	24.22

Source: Company, ICICI Direct Research, Thomson Reuters

## Financial summary

Exhibit 17: Profit and loss statement ₹ crore				
(Year-end March)	FY19	FY20P	FY21E	FY22E
<b>Total operating Income</b>	<b>3,882.3</b>	<b>4,043.5</b>	<b>3,367.9</b>	<b>4,076.6</b>
Growth (%)	13.8	4.2	-16.7	21.0
Raw material	942.1	952.4	816.5	973.4
Power & Fuel	919.8	843.9	705.5	842.4
Employees	259.9	303.1	293.3	318.2
Freight	953.3	817.6	646.6	814.3
Others	365.6	454.2	368.6	439.9
Total Operating Exp.	3,440.7	3,371.1	2,830.5	3,388.3
<b>EBITDA</b>	<b>441.7</b>	<b>672.4</b>	<b>537.5</b>	<b>688.3</b>
Growth (%)	7.4	52.2	-20.1	28.1
Depreciation	179.4	188.4	190.8	191.2
Interest	187.4	163.6	150.4	127.9
Other Income	56.3	49.3	28.0	32.0
Exceptional items	0.0	30.2	0.0	0.0
PBT	131.1	339.5	224.3	401.2
Total Tax	24.9	104.2	78.1	139.6
PAT	106.2	235.2	146.2	261.6
<b>Adjusted PAT</b>	<b>79.6</b>	<b>265.5</b>	<b>146.2</b>	<b>261.6</b>
Growth (%)	-5.2	233.6	-44.9	78.9
<b>Adjusted EPS (₹)</b>	<b>6.8</b>	<b>22.6</b>	<b>12.4</b>	<b>22.2</b>

Source: Company, ICICI Direct Research

Exhibit 19: Balance sheet ₹ crore				
(Year-end March)	FY19	FY20P	FY21E	FY22E
<b>Liabilities</b>				
Equity Capital	58.9	58.9	58.9	58.9
Reserve and Surplus	1,465.8	1,649.8	1,781.9	2,029.3
Total Shareholders funds	1,524.7	1,708.7	1,840.7	2,088.1
Total Debt	1,612.9	1,398.0	1,203.0	1,023.0
Deferred Tax Liability	0.0	18.7	18.7	18.7
Other non-current liabilities	175.6	181.3	181.3	181.3
<b>Total Liabilities</b>	<b>3,313.2</b>	<b>3,306.7</b>	<b>3,243.7</b>	<b>3,311.1</b>
<b>Assets</b>				
Gross Block	4,783.2	5,121.2	5,392.2	5,532.2
Less: Acc Depreciation	2,144.7	2,333.1	2,523.9	2,715.1
Net Block	2,638.5	2,788.1	2,868.3	2,817.1
Capital WIP	411.6	151.0	60.0	120.0
Total Fixed Assets	3,050.1	2,939.1	2,928.3	2,937.1
Investments	362.4	416.9	366.9	316.9
Inventory	311.7	412.8	417.7	341.8
Debtors	108.6	88.2	96.3	104.7
Loans and Advances	249.4	274.9	331.4	280.1
Non current Investments	357.3	383.1	383.1	383.1
Cash	18.0	29.3	14.2	42.0
Total Current Assets	1,045.0	1,188.3	1,242.6	1,151.8
Creditors	1,115.7	1,220.7	1,270.6	1,074.8
Provisions	28.6	16.9	23.5	19.9
Total Current Liabilities	1,144.3	1,237.6	1,294.1	1,094.7
Net Current Assets	-99.3	-49.4	-51.5	57.1
<b>Application of Funds</b>	<b>3,313.1</b>	<b>3,306.7</b>	<b>3,243.7</b>	<b>3,311.1</b>

Source: Company, ICICI Direct Research

Exhibit 18: Cash flow statement ₹ crore				
(Year-end March)	FY19	FY20P	FY21E	FY22E
Profit after Tax	79.6	235.2	146.2	261.6
Add: Depreciation	179.4	188.4	190.8	191.2
(Inc)/dec in Current Assets	-8.2	-106.2	-69.5	118.7
Inc/(dec) in CL and Prov.	60.2	93.4	56.5	-199.4
<b>CF from operating activit</b>	<b>310.9</b>	<b>410.7</b>	<b>324.1</b>	<b>372.0</b>
(Inc)/dec in Investments	74.5	-80.4	50.0	50.0
(Inc)/dec in Fixed Assets	-207.9	-77.4	-180.0	-200.0
Others	35.6	26.2	0.0	0.0
<b>CF from investing activit</b>	<b>-97.8</b>	<b>-131.6</b>	<b>-130.0</b>	<b>-150.0</b>
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	-198.5	-214.9	-195.0	-180.0
Dividend paid	-10.6	0.0	-14.2	-14.2
Inc/(dec) in Sec. premium	0.0	0.0	0.0	0.0
Others	2.6	-51.2	0.0	0.0
<b>CF from financing activit</b>	<b>-206.6</b>	<b>-266.1</b>	<b>-209.2</b>	<b>-194.2</b>
Net Cash flow	6.4	13.1	-15.1	27.8
Opening Cash	11.6	18.0	29.3	14.2
<b>Closing Cash</b>	<b>18.0</b>	<b>31.1</b>	<b>14.2</b>	<b>42.0</b>

Source: Company, ICICI Direct Research

Exhibit 20: Key ratios				
(Year-end March)	FY19	FY20P	FY21E	FY22E
<b>Per share data (₹)</b>				
Adjusted EPS	6.8	22.6	12.4	22.2
Cash EPS	22.0	36.0	28.6	38.5
BV	129.5	145.2	156.4	177.4
DPS	0.8	0.0	1.0	1.0
Cash Per Share	1.5	2.5	1.2	3.6
<b>Operating Ratios (%)</b>				
EBITDA Margin	10.7	16.6	16.0	16.9
PAT Margin	2.0	5.8	4.3	6.4
Inventory days	29.6	32.7	45.0	34.0
Debtor days	9.7	8.9	10.0	9.0
Creditor days	102.3	105.5	135.0	105.0
<b>Return Ratios (%)</b>				
RoE	5.2	15.5	7.9	12.5
RoCE	9.3	17.1	12.2	16.9
RoIC	9.3	17.9	12.4	17.6
<b>Valuation Ratios (x)</b>				
P/E	30.5	10.3	16.6	9.3
EV / EBITDA	8.8	5.0	6.0	4.5
EV / Net Sales	0.9	0.8	1.0	0.8
Market Cap / Sales	0.6	0.6	0.7	0.6
Price to Book Value	1.7	1.6	1.4	1.3
<b>Solvency Ratios</b>				
Debt/EBITDA	3.9	2.1	2.2	1.5
Debt / Equity	1.1	0.8	0.7	0.5
Current Ratio	0.6	0.7	0.7	0.7
Quick Ratio	0.6	0.6	0.7	0.7

Source: Company, ICICI Direct Research

**Exhibit 21: ICICI Direct coverage universe (Cement)**

Company	CMP		M Cap	EPS(₹)			EV/EBITDA (x)			EV/Tonne (\$)			RoCE (%)			RoE (%)			
	(₹)	TP(₹)		Rating	(₹ Cr)	FY19	FY20E	FY21E	FY19	FY20E	FY21E	FY19	FY20E	FY21E	FY19	FY20E	FY21E	FY19	FY20E
ACC*	1,130	1,380	BUY	21,237	73	48	64	7.9	12.3	9.7	71	76	65	17.4	10.8	13.4	11.9	7.4	9.2
Ambuja Cem*	168	195	BUY	33,359	6.3	6.3	7.7	11.0	10.9	9.0	92	93	88	11.3	11.4	13.2	8.6	8.4	10.0
UltraTech Cem	3,529	4,200	BUY	101,837	88	189	76	15.6	12.6	16.1	145	143	134	9.0	11.4	7.6	7.6	14.2	5.5
Shree Cement	18,740	23,500	BUY	67,621	318	435	240	26.6	18.4	23.5	234	197	188	11.5	13.8	8.2	11.5	12.1	6.4
Heidelberg Cem	143	190	BUY	3,241	9.7	12.4	7.9	8.1	6.9	9.3	105	97	84	21.8	23.2	17.1	20.5	22.3	13.4
India Cement	98	105	HOLD	3,011	2.2	3.3	0.8	10.3	9.1	11.0	66	71	69	4.5	5.0	3.7	1.3	1.9	0.5
JK Cement	1,095	1,350	BUY	7,657	42.0	67.4	27.4	11.3	8.5	12.8	116	109	112	12.5	15.3	8.7	11.2	15.7	6.0
JK Lakshmi Cem	206	260	BUY	2,425	6.8	22.6	12.4	8.8	5.0	6.0	39	36	35	9.3	17.1	12.2	5.2	15.5	7.9
Mangalam Cem	152	165	HOLD	406	-3.7	29.0	14.7	17.1	4.0	5.4	37	33	30	3.2	15.8	9.7	-2.0	13.4	6.4
Star Cement	73	85	HOLD	3,060	7.2	7.1	3.9	6.5	6.9	9.5	105	106	71	19.5	17.5	9.7	17.8	16.2	8.4
Ramco Cement	515	610	BUY	12,261	22.2	23.3	10.2	13.0	12.8	16.7	127	106	104	8.2	7.8	5.3	11.7	11.4	5.0
Sagar Cement	283	365	BUY	623	6.2	16.5	-0.6	7.3	6.6	11.0	29	31	36	6.4	7.3	3.5	1.6	3.8	-0.1

Source: Company, ICICI Direct Research



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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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