ANANDRATHI

India I Equities

Cement
Meeting Update

Change in Estimates ☐ Target ☐ Reco ☐

05 July 2019

JK Lakshmi Cement

Focus on increasing realisations, de-levering; retaining a Buy

Rating: **Buy**
Target Price: ₹481
Share Price: ₹334

Despite restrained pricing in its key operating region impacting JK Lakshmi's performance, its cost-optimisation steps, no major capex and focus on delevering are pointers to a better performance. On its thermal power plant and Odisha GU commissionings, shorter lead distance, and increasing share of trade sales, we expect greater profitability. We retain our Buy rating, with the same target of ₹481.

Focus on increasing revenue. Concerns regarding constrained realisations in its major markets (Gujarat, Chhattisgarh) are yet to be addressed. Increasing the proportion of PPC and trade sales and the better demand-supply context would improve revenue growth. We expect the top line to grow 9%, backed by a 4% volume CAGR over FY19-21.

Cost optimisation measures. Commissioning of the 20MW thermal plant is to begin by Q2 FY20 and save ₹50/ton in power costs at its eastern operations. Besides, freight costs have been optimised by reducing lead distances and concentrating on direct dispatches. Management expects to save ₹100/ton in freight cost over the next two years. We expect EBITDA/ton of ₹586 by FY21, backed by modest costs.

Capex plans. The commissioning of 0.8m-ton grinding unit has been slightly delayed; it is now expected by Q3 FY20. Estimated capex for FY20 is ₹500m for a GU in Orissa, ₹300m-400m for a CPP at the Durg plant and ₹300m-400m for maintenance. With no major capex pending, management guided to ₹2.5bn debt repaid annually in the next two years.

Outlook, Valuation. Gross debt was ₹16bn (₹21bn a year ago) resulting in (standalone) net D/E of 0.8x (1.1x in FY18). With no capacity expansion announced till now, the de-levering and anticipated improvement in operating performance, we expect profitability and return ratios to improve. We retain our Buy rating, with a target of ₹481 on 10x FY21e EV/EBITDA. **Risk:** Rising prices of pet-coke and diesel.

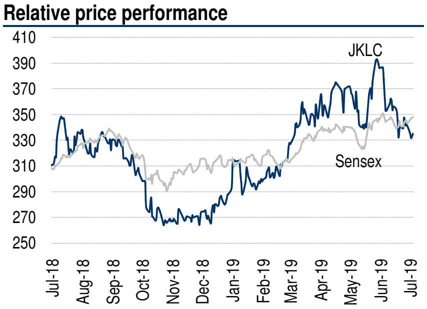
Key financials (YE Mar)	FY17	FY18	FY19	FY20e	FY21e
Sales (₹ m)	29,104	34,122	38,823	41,380	45,714
Net profit (₹ m)	820	840	796	1,788	2,832
EPS (₹)	7.0	7.1	6.8	15.2	24.1
PE (x)	66.4	64.9	51.4	22.0	13.9
EV / EBITDA (x)	19.7	17.3	12.9	9.8	7.9
EV / ton ($)	108.5	97.5	72.0	62.6	56.6
RoE (%)	6.1	5.9	5.3	11.1	15.5
RoCE (%)	6.1	5.3	5.4	8.1	11.0
Dividend yield (%)	0.2	0.2	0.2	0.2	0.4
Net gearing (x)	1.3	1.1	0.8	0.6	0.3

Source: Company, Anand Rathi Research

Key data	JKLC IN / JKLC BO
52-week high / low	₹396 / 250
Sensex / Nifty	39934 / 11952
3-m average volume	$0.5m
Market cap	₹39bn / $573m
Shares outstanding	118m

Shareholding pattern (%)	Mar'19	Dec'18	Sept'18
Promoters	45.9	45.9	45.9
- of which, Pledged	-	-	-
Free float	54.1	54.1	54.1
- Foreign institutions	9.0	8.1	8.0
- Domestic institutions	20.4	20.7	19.3
- Public	24.6	25.3	26.8

Relative price performance



Source: Bloomberg

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Quick Glance – Financials and Valuations

Fig 1 – Income statement (₹ m)

Year-end: Mar	FY17	FY18	FY19	FY20e	FY21e
Sales volume (m tons)	8.0	8.5	9.7	9.9	10.5
Net revenues (₹ m)	29,104	34,122	38,823	41,380	45,714
Growth (%)	*11.1*	*17.2*	*13.8*	*6.6*	*10.5*
Direct costs	20,490	24,468	28,418	29,408	31,946
SG&A	4,960	5,540	6,255	6,911	7,602
EBITDA	**3,654**	**4,114**	**4,150**	**5,060**	**6,165**
EBITDA margins (%)	*12.6*	*12.1*	*10.7*	*12.2*	*13.5*
- Depreciation	1,724	1,793	1,794	1,900	2,000
Other income	698	681	563	600	600
Interest expenses	1,887	1,975	1,874	1,525	1,225
PBT	742	1,027	1,044	2,236	3,541
Effective tax rate (%)	*-11*	*18*	*24*	*20*	*20*
+ Associates / (Minorities)					
Net Income	820	840	796	1,788	2,832
Adjusted income	820	840	796	1,788	2,832
WANS	118	118	118	118	118
FDEPS (₹ / sh)	7.0	7.1	6.8	15.2	24.1
FDEPS growth (%)	*1,866.4*	*2.4*	*-5.2*	*124.8*	*58.4*

Fig 2- Balance sheet (₹ m)

Year-end: Mar	FY17	FY18	FY19	FY20e	FY21e
Share capital	589	589	589	589	589
Net worth	13,817	14,532	15,227	16,907	19,569
Debt	22,585	21,172	16,248	14,248	10,248
Minority interest					
DTL / (Assets)	-87	-200	-220	-220	-220
Capital employed	**36,315**	**35,505**	**31,255**	**30,935**	**29,597**
Net tangible assets	28,240	27,912	26,334	29,145	27,545
Net Intangible assets	17	17	51	51	51
Goodwill	-	-	-	-	-
CWIP (tang. & intang.)	2,051	2,281	4,111	150	150
Investments (strategic)	3,102	3,539	3,573	3,573	3,573
Investments (financial)	4,997	4,409	3,629	3,629	3,629
Curr. assets (ex cash)	6,655	6,415	6,456	8,262	9,260
Cash	90	116	180	138	842
Current liabilities	8,836	9,184	13,079	14,011	15,453
Working capital	-2,181	-2,769	-6,623	-5,750	-6,192
Capital deployed	**36,315**	**35,505**	**31,255**	**30,935**	**29,597**
Contingent liabilities	1,847	-	-	-	-

Fig 3 – Cash-flow statement (₹ m)

Year-end: Mar	FY17	FY18	FY19	FY20e	FY21e
PBT	742	1,027	1,044	2,236	3,541
+ Non-cash items	1,724	1,793	1,794	1,900	2,000
Oper. prof. before WC	2,466	2,820	2,838	4,136	5,541
- Incr. / (decr.) in WC	-722	-588	-3,854	873	-443
Others incl. taxes	166	291	272	447	708
Operating cash-flow	3,022	3,116	6,421	2,815	5,275
- Capex (tang. + intang.)	1,912	1,695	2,079	750	400
Free cash-flow	1,110	1,421	4,341	2,065	4,875
Acquisitions					
- Div. (incl. buyback & taxes)	106	106	106	108	171
+ Equity raised	-	-	-	-	-
+ Debt raised	2,634	-1,412	-4,924	-2,000	-4,000
- Fin investments	3,722	-151	-745	-	-
- Misc. (CFI + CFF)	-57	28	-8	-0	-
Net cash-flow	-28	26	64	-42	704

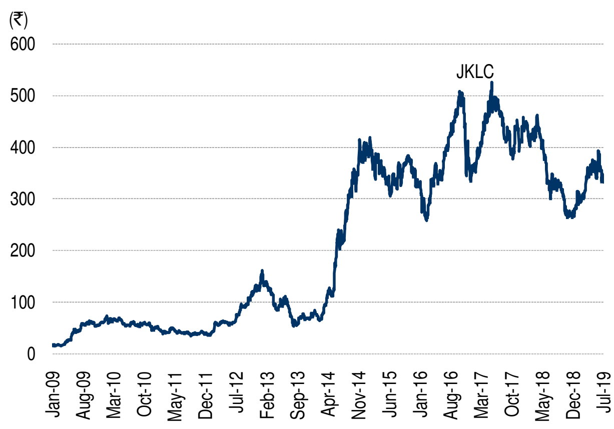
Source: Company, Anand Rathi Research

Fig 4 – Ratio analysis

Year-end: Mar	FY17	FY18	FY19	FY20e	FY21e
P/E (x)	66.4	64.9	51.4	22.0	13.9
EV / EBITDA (x)	19.7	17.3	12.9	9.8	7.9
EV / Sales (x)	2.5	2.1	1.4	1.2	1.1
P/B (x)	3.9	3.7	2.7	2.3	2.0
RoE (%)	6.1	5.9	5.3	11.1	15.5
RoCE (%) - after tax	6.1	5.3	5.4	8.1	11.0
DPS (₹ / sh)	0.7	0.8	0.8	0.8	1.2
Dividend payout (%) - incl. DDT	13.0	12.7	13.4	6.0	6.0
Net debt / equity (x)	1.3	1.1	0.8	0.6	0.5
Working capital (days)	-27.4	-29.6	-62.3	-50.7	-49.4
EV / ton ($)	108.5	97.5	72.0	62.6	56.6
NSR / ton (₹)	3,659	4,005	4,023	4,163	4,343
EBITDA / ton (₹)	459	483	430	509	586
Volumes	7.95	8.52	9.65	9.94	10.53
CFO : PAT %	368.6	371.2	807.0	157.4	186.2

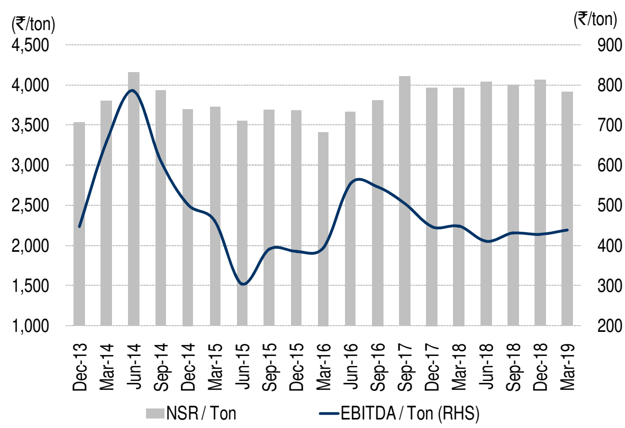
Source: Company, Anand Rathi Research

Fig 5 – Price movement



Source: Bloomberg

Fig 6 – Quarterly per-ton NSR and EBITDA trend



Source: Company

Key Takeaways

Operational and Financial highlights

- Management expects volumes in Q1 FY20 to have been lower (due to the elections) but realizations to have come better (increases per bag from FY19, of ₹15-20 in the North and -₹5-10 in the East).
- Sales mix, region-wise. North: Gujarat 40%, Rajasthan 30%, others 30%; East: Chhattisgarh 58%, Odisha 28%, others 14%.
- Trade-nontrade mix: 55:45. Management's focus on increasing the trade share to 65% addresses the issue of lower-than-peers realisations.
- Its northern plants are 100% self-sufficient in power (WHRS and CPP), whereas its eastern plant is 60% self-sufficient (WHRS).
- Q4 FY19 fuel mix. Eastern plant: imported pet-coke 55%, coal 45%; northern plants: imported pet-coke 15%, coal 85%.
- Management expects FY20 RMC revenue to be similar to that in FY19.
- Management is focusing on lower freight cost through shortening lead distances (now, North 430km, East 375km) and increasing the proportion of direct dispatches. The company has appointed an agency to look into this. Management expects to save ₹100/ton in freight cost over the next two years
- The Udaipur plant is expected to break even in Q1 FY20 at the PBT level. Currently, utilisation is 80-85%.
- The pricing cap by the Chhattisgarh government has held down profitability in the East compared to the North. However, lower costs in the east have kept EBITDA/ton in both regions similar.

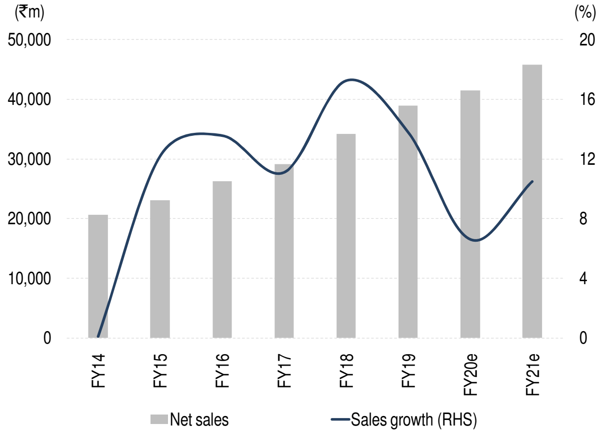
Debt and Capex

- The commissioning of the 0.8m-ton GU in Orissa has been slightly delayed; it is now expected by Q3 FY20.
- Estimated FY20 capex: ₹500m for GU in Orissa, ₹300m-400m for a CPP at Durg plant and ₹300m-400m for maintenance.
- With no major capex pending, management spoke of ₹2.5bn debt being repaid annually in the next two years.

Outlook

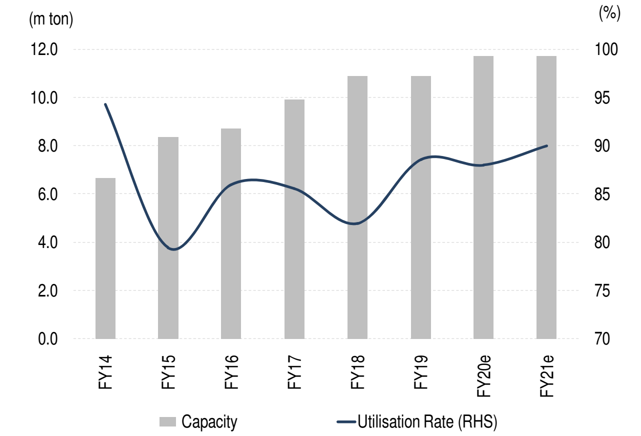
- Volumes likely to decline 5-7% y/y in areas where it operates.
- Savings of ₹50/ton expected on the commissioning of the thermal power plant at Durg (Chhattisgarh) in Q2 FY20.
- The company is also evaluating a ~2.5m-ton brownfield expansion in the north, either at Sirohi or Udaipur. Budgeted capex: ₹9bn.
- There is elbowroom for brownfield expansion at the Durg plant: with minimal capex, clinker capacity could go up by 1.5m–2m tons.

Fig 7 – Revenue and Revenue growth



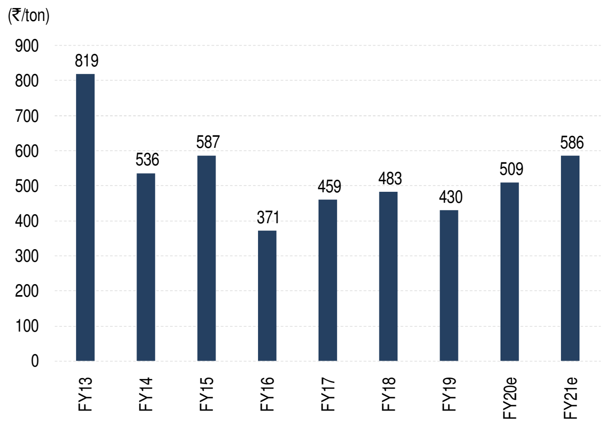
Source: Company, Anand Rathi Research

Fig 8 – Capacity and Utilisation



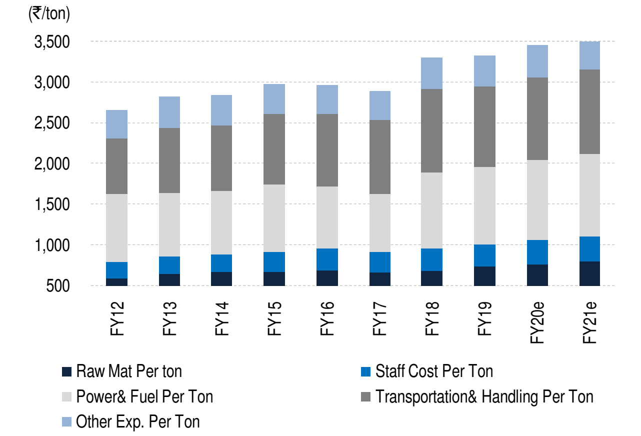
Source: Company, Anand Rathi Research

Fig 9 – EBITDA-per-ton trend



Source: Company, Anand Rathi Research

Fig 10 – Cost-per-ton trend

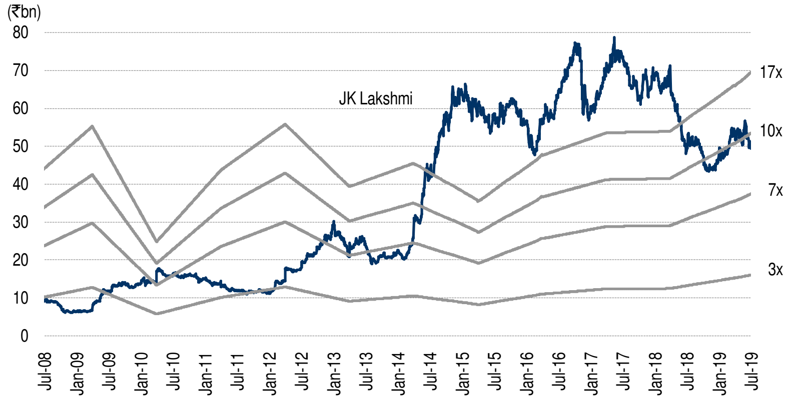


Source: Company, Anand Rathi Research

Valuations

Subdued pricing in its key operating region has tarnished its operating performance. However, the focus on consolidating operations before further capacity expansions and de-levering are key positives. We maintain our Buy rating on the stock, with the same target of ₹481, based on FY21e EV/EBITDA of 10x, reflecting an EV/ton of $79.

Fig 11 – EV / EBITDA band



Source: Bloomberg, Anand Rathi Research

Fig 12 – Peer comparison - Valuations

	CMP	P/E		EV / EBITDA		EV / ton ($)	
	(₹)	FY20e	FY21e	FY20e	FY21e	FY20e	FY21e
JK Lakshmi	334	22.0	13.9	9.7	7.2	63	57
Birla Corp.	581	16.1	14.7	7.9	7.6	67	67
Dalmia Bharat	1,065	42.9	36.8	10.5	9.3	132	96
Deccan Cement	394	9.1	7.7	4.2	3.1	31	26
Heidelberg Cement	204	16.9	14.5	8.7	7.7	122	110
India Cement	105	17.0	13.1	7.9	7.3	60	60
JK Cement	1,006	20.0	17.8	11.7	9.7	96	93
Mangalam Cement	253	38.7	12.0	10.9	6.8	43	42
NCL Industries	134	8.0	6.3	4.6	3.7	41	37
Orient Cement	108	18.4	14.1	8.1	7.2	68	74
Ramco Cement	800	27.3	19.7	16.4	12.3	188	156
Sagar Cement	663	19.2	13.4	8.8	7.5	57	44
Sanghi Industries	65	53.2	30.5	14.0	9.7	101	49
Star Cement	122	14.5	12.1	8.5	7.2	126	124

Source: Bloomberg, Anand Rathi Research

Risk

- Rising prices of pet-coke and diesel.

Appendix

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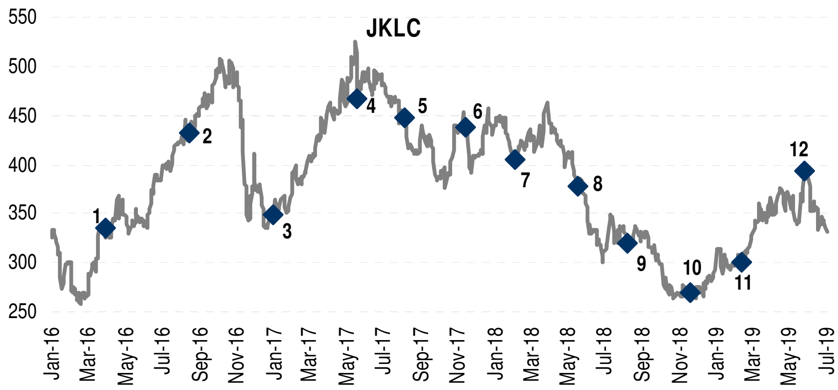

	Date	Rating	TP (₹)	Share Price (₹)
1	30-Mar-16	Buy	409	325
2	16-Aug-16	Buy	542	427
3	31-Dec-16	Buy	443	350
4	19-May-17	Hold	521	482
5	05-Aug-17	Hold	492	453
6	14-Nov-17	Buy	561	441
7	03-Feb-18	Buy	532	405
8	19-May-18	Buy	500	380
9	06-Aug-18	Buy	418	322
10	19-Nov-18	Buy	334	268
11	12-Feb-19	Buy	389	301
12	28-May-19	Buy	481	380

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