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Initiating Coverage

JK Lakshmi Cement Ltd.

17-November-2020

RETAIL RESEARCH

JK Lakshmi Cement Ltd.

Industry	LTP	Base case Fair Value	Bull case Fair Value	Recommendation	Time Horizon
Cement	Rs. 339.55	Rs.367	Rs.404	Buy at LTP and on dips to Rs.292-298 band	2 quarters

HDFC Scrip Code	JKLKSHEQNR
BSE Code	500380
NSE Code	JKLAKSHMI
Bloomberg	JKLC:IN
CMP Nov 14, 2020	339.55
Equity Capital (cr)	59
Face Value (Rs)	5
Eq- Share O/S(cr)	11.77
Market Cap(Rscr)	3997
Book Value (Rs)	146
Avg.52 Wk Volume	698950
52 Week High	389.35
52 Week Low	179.80

Share holding Pattern % (Sept, 2020)	
Promoters	46.21
Institutions	33.50
Non Institutions	20.29
Total	100.0

Fundamental Research Analyst

Jimit Zaveri

Jimit.zaveri@hdfcsec.com

Our Take:

JK Lakshmi Cement Ltd. (JKLC) is a part of 132 years old JK group. It has a 3% market share in India with 13.3MTPA cement capacity. Proximity to raw materials, self-sufficiency in power and competitive freight costs are the key drivers which has been ensuring high-cost efficiency for JKLC.

We expect that Covid-19 led lockdown and slowdown in the economy will lead to subdued growth in volumes of JK Lakshmi Cement for FY21 but benign raw material price and aggressive control on variable costs are likely to drive EBIDTA growth. The industry has a higher dependence on real estate and infra sector which is expected to be impacted due to expected slowdown in the economy. Going forward, we expect, a gradual recovery in cement demand and volumes are likely to pick-up from H2FY21 onwards. In the case of JKLC, incremental profitability will also be driven by deleveraging balance sheet and saving on interest costs. Also, on the demand side, key growth drivers are likely to be pick up in rural housing, Pradhan Mantri Awas Yojana (rural), Pradhan Mantri Gram Sadak Yojana and spending on key infrastructure projects. As per the management, Eastern India region is largely underpenetrated and thus has high growth potential compared to the rest of our country.

Valuations & Recommendation:

We expect, that the company will get benefit from a strong position in Northern-Western region, ~75% of the revenue of the company comes from these regions. Also, captive power plants (~105 MW of captive power plants) and stable working capital augur well for JKLC. However, in short to medium term Covid-19 led slowdown could result in lower utilization is likely to adversely impact growth.

We like JKLC due to its steady profitability owing to firm prices in North (due to consolidated supply and lower supply), deleveraging in standalone operations and cheap valuations. JKLC's subsidiary Udaipur cements is undertaking a new capex to set up an integrated cement plant with 2.5 mnt capacity, expected to be completed in next three years. The debottlenecking at Udaipur Cement (0.3 mtpa clinker and 0.6 mtpa cement) is on track to be completed by Q4FY21 taking the grinding capacity to 2.2 mtpa at a capex of Rs0.6 bn.

JK Lakshmi Cement Ltd.

We expect, 4% CAGR in top-line and 5% EPS CAGR over FY20-22E. At the LTP, the company is trading at FY22E EV/T of $53.42/T. We feel the base case fair value of the stock is Rs.367 (FY22E EV/T of $60.3 or 7.75xFY22E EV/EBITDA + CWIP + 20% discount to current market cap of 72.5% holding in Udaipur Cement) and the bull case fair value is Rs.404 (FY22E EV/T of $65.0 or 8.4xFY22E EV/EBITDA + CWIP + 20% discount to current market cap of 72.5% holding in Udaipur Cement) over the next two quarters. We feel investors can buy the stock at the LTP and add on dips to Rs.292-298 band (FY22E EV/T of $55.5 or 7.1xFY22E EV/EBITDA + CWIP + 20% discount to current market cap of 72.5% holding in Udaipur Cement).

Financial Summary (Standalone)

Particulars (Rs cr)	Q2FY21	Q2FY20	YoY-%	Q1FY21	QoQ-%	FY19	FY20	FY21E	FY22E
Total Operating Income	1045	935	12%	825	27%	3,882.3	4,043.5	4,181.0	4,391.3
EBITDA	187	149	26%	143	31%	415.0	672.4	659.9	690.8
APAT	81	46	76%	44	81%	79.6	235.2	254.9	260.4
Diluted EPS (Rs)	6.85	3.9	76%	3.77	82%	6.8	20.0	21.7	22.1
RoE-%						5.3	14.5	13.9	12.5
P/E (x)						50.2	17.0	15.7	15.3
EV/EBITDA						12.8	7.9	8.0	7.7

(Source: Company, HDFC sec)

Q2FY20 Result Update

- The volumes of the company have grown by 16% to 2.4 mnT in Q2FY21 compared to 2.1mnT in Q2FY20, riding on strong demand across the north half of India. Plant utilization was at 82% for the quarter led by improved sales volumes. Revenue has grown by 12%, y-o-y to Rs.1045 cr in Q2FY21 compared to Rs.935 cr in Q2FY20. NSR (Rs/T) has degrow by 3.5% to Rs.4381/t, Y-o-Y.
- However, with the reduction in overall expenditure, the EBIDTA was at Rs.187 crores as compared to Rs.149 crores in the previous year. EBIDTA/T has improved YoY by 8.5% to Rs.783/T. This was a 2nd consecutive quarter in row, JKLC has reported healthy operating performance. Lower other expenditure was mainly driven by Power & Fuel and freight costs that were down 15.1% YoY (led by lower pet coke prices) and 5.1% YoY, respectively. Consequently, PAT grew by 76% YoY.
- Strong focus on working capital reduction resulted in high operating cash flow which helped in reduction of Net Debt by 33% v/s Mar 2020. The Net debt as on Sept ’20 stood at Rs 690 cr.

Long term Triggers

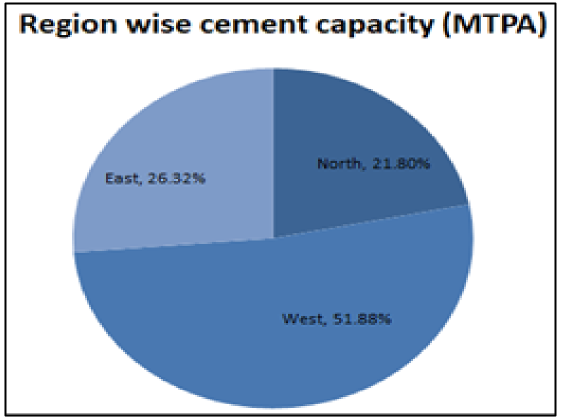
Strong Market position

The company has a strong presence over Rajasthan, Gujarat, Haryana, Delhi, Uttar Pradesh, Punjab, Jammu and Kashmir, Madhya Pradesh, Chattisgarh, Odisha, South Bengal, Vidharbha, Mumbai and Pune. Around 75% of revenue comes from the northern region, Gujarat, Rajasthan.

The company has integrated cement capacities at Sirohi and Udaipur (both in Rajasthan) and Durg (Chhattisgarh), and grinding units at Jhajjar (Haryana), Cuttack (Orissa), Kalol and Surat (both in Gujarat). With the commissioning of the Odisha grinding unit the company has further diversified its presence in the eastern region and is gradually ramping-up capacity utilisation from these units.

A deep-focus 100-day project named "Pratham" was launched in the month of July 2019 at the Jhajjar plant. The project is aimed to improve synergy between marketing tactics and logistical efficiency of the company. Both the brands, JK Lakshmi Cement and Platinum heavy duty cement were strategised and logistically streamlined to provide an online customised delivery service of as low as 20 bags to any site within the jhajjar district. The prime motive of the project is to enhance the deep penetration in the home district and improve market share. To drive growth into the Indian rural market, JKLC participated in the Krishi Darshan Expo in Hissar, Haryana to showcase its JK Lakshmi PRO+ Cement to the rural audience.

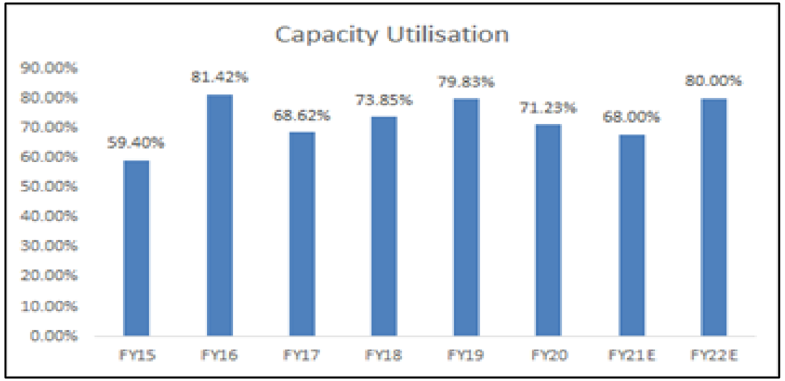
JK Cement is one among only two white cement companies in India with a market share of ~ 42% in India. Over the years, JK Cement has built a good brand in white cement with distribution set-up across the country, resulting in better profitability.



Source – Company, HDFC sec Research

Improvement in Net realization and EBIDTA / tonne

The industry has witnessed a strong pricing M-o-M and Y-o-Y which is expected to improve realization and profitability. The sharp price hike was taken in late April..

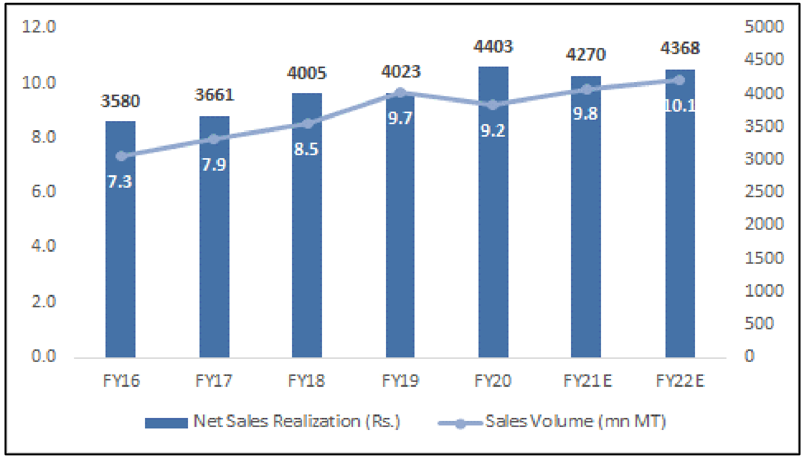


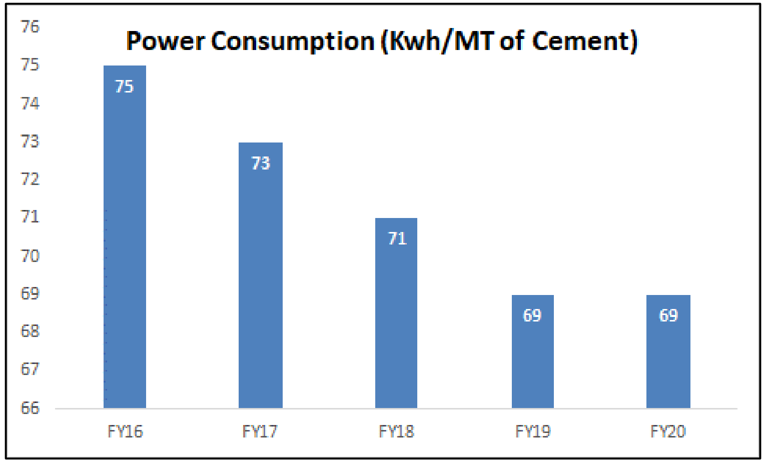
Source – Company, HDFC sec Research

JK Lakshmi Cement Ltd.

JK Lakshmi has focused on maintaining its cost-efficiency. It uses low-cost pet-coke, helping reduce fuel costs and dependence on the poor uneven quality of coal. Efforts to increase pet-coke use in its fuel mix, sourced from the domestic market, have helped optimize costs.

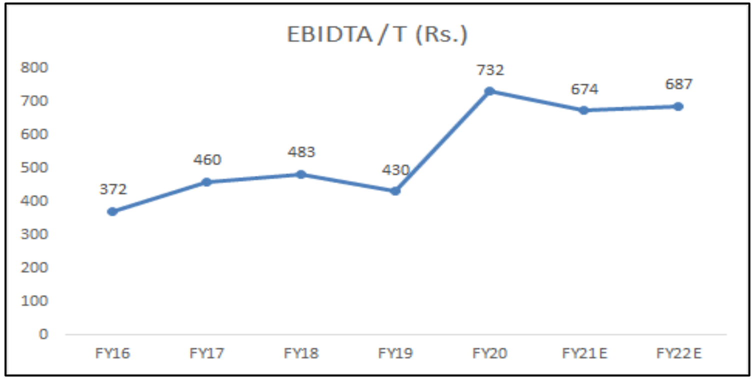
The commissioning of the Waste Heat Recovery Power Plant of 7.5 MW in the FY19 and 20 MW Thermal Power Plant in the FY20 has enabled the Company to contain its power cost at the Durg Plant. Expansion of Waste Heat Recovery Project in Jaykaypuram, Sirohi with an annual capacity of 10 MW is in full swing and is expected to be commissioned in the year 2021. Its per-ton power consumption is the best in the industry, 69 kWh against the industry norm of 75-80 kWh. Further it has self-sufficiency in power, through a total of 105 MW of captive power capacity, which includes, CPP of 74 MW, WHR plant of 21 MW and solar power plant of 10 MW which makes the entire operations almost self-sufficient in power.





Source – Company, HDFC sec Researc

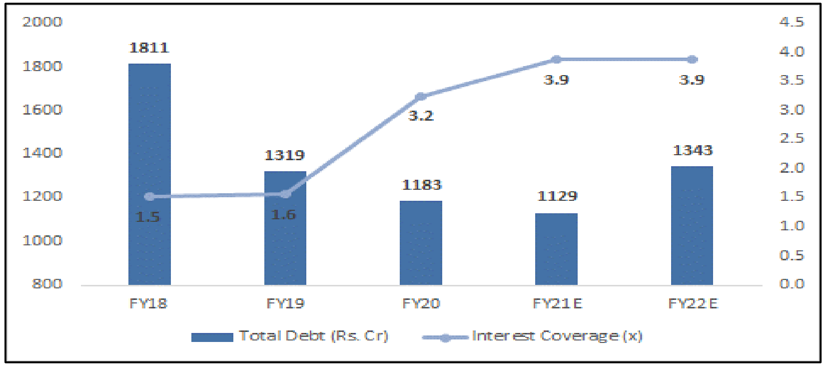
The Company was able to bring down the logistics cost by optimising dumps and modes of transportation and also encouraging direct dispatches aided by the GST regime.

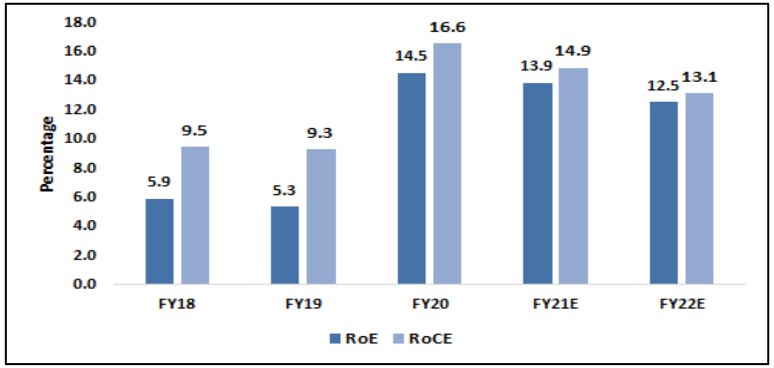


Source – Company, HDFC sec Research

Debt reduction will help to ease the interest burden

Over the last 3 years, the Company has been focusing on deleveraging its Balance Sheet by continuously reducing its Debt. The Company also has plans to reduce debt in the next 2 years which will bring down interest burden. This will help the company to maintain profitability in the coming years.





Source – Company, HDFC sec Research

Capacity expansion in FY22 will add further growth

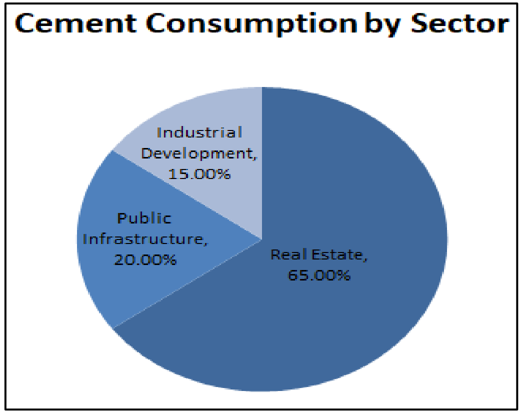
During the FY20, the Company successfully commissioned a new Grinding Unit with an annual capacity of 0.8 Million tonnes at Cuttack, Odisha and a 20 MW Captive Thermal Power Plant at Durg, Chhattisgarh. Expansion of Waste Heat Recovery Project in Jaykaypuram, Sirohi with an annual capacity of 10 MW is in full swing and is expected to be commissioned in the year 2021. JKLC will start work on a 2.5mn MT brown-field expansion in Udaipur (Rajasthan) in FY22E after the COVID situation normalizes. This will reduce Capex cash outflow in FY21. The new 2.5 MT Udaipur capacity will incur a total capex of Rs 1400Cr and same is likely to be commissioned by the end of FY24.

JKLC has also diversified its presence in the eastern region, with its integrated unit at Durg, reporting a healthy capacity utilization of 97% in FY19 and ~80% in FY20E due to COVID situation.

What could go wrong

Covid-19 led lockdown and slowdown in the economy affect future growth

Cement demand has fallen sharply in H1FY21. A decline in cement demand in FY21 may bring down capacity utilization of cement companies. Growth in the housing segment, that forms 60%-65% of cement demand, is likely to be affected given the impact of the slowdown in economic growth as lower income growth and income cuts will result on lower discretionary spending over the next year.



Source – Company, HDFC sec Research

The COVID-19 induced self-isolation impaired the home buying sentiments that has created an adverse impact on weak balance sheet builders and they tend to defer launches of new projects.

Fall in volumes will result in lower capacity utilization resulting in lower operating leverage.

Prolonged deterioration of core economy sectors can result in slowdown in cement demand which can result in lower volume offtake and lower cement prices. Cement industry is a highly fixed cost intensive business. Any slowdown in demand can result in negative operating leverage which can impact the overall profitability of the company.

Any spike in key raw materials can result in higher input cost which can impact earnings.

Debt equity ratio to rise

JKLC's subsidiary Udaipur cements is undertaking a new capex, expected to be completed in next three years, with an outlay of Rs.1400 cr through mix of debt and equity. JKLC may have to contribute 30% of total capital outlay in equity form. The company's consolidated gross debt stood at Rs19 bn (Rs14 bn at JKLC and Rs5 bn at Udaipur) as of September 2020. The company has cash reserves of Rs7.2 bn. Consolidated net debt reduced to Rs12 bn as of Q2FY21 from Rs13 bn in Q1FY21.

About the Company

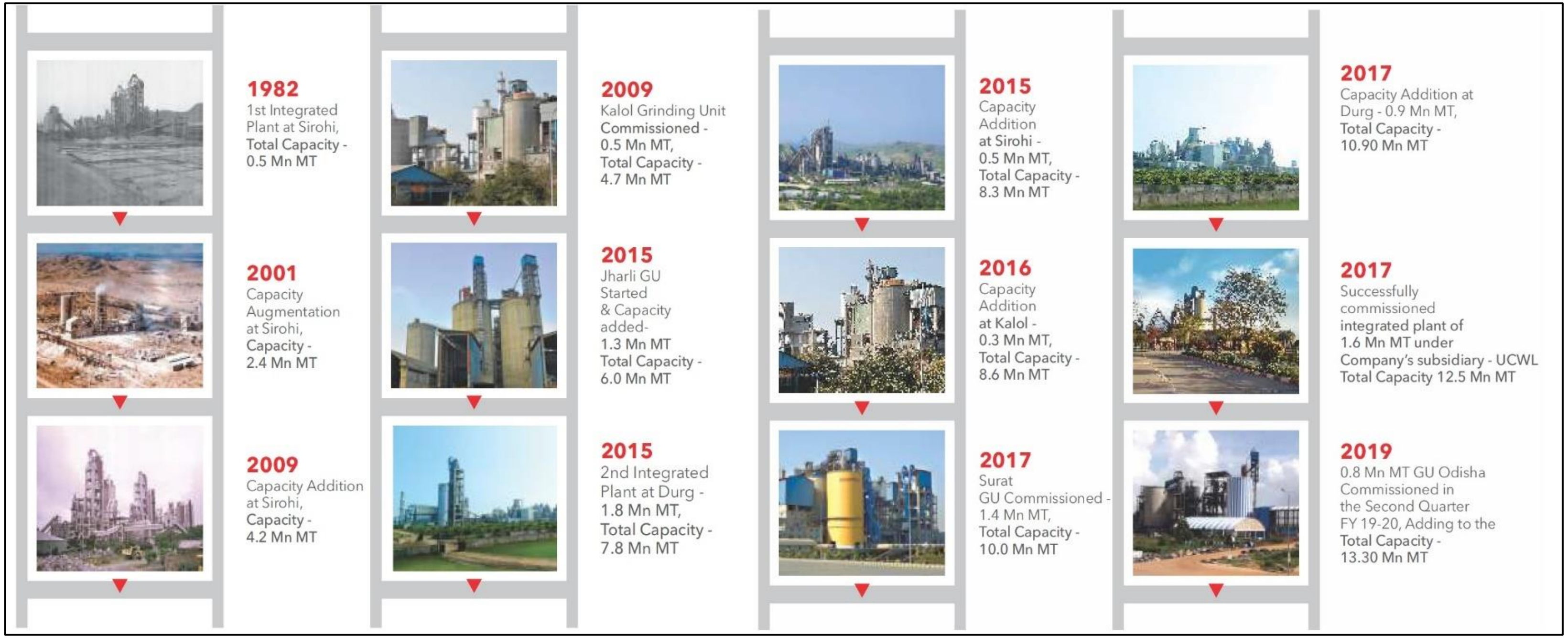
JK Lakshmi Cement is a part of over 132 years old JK Organization. was promoted by the late Lala Lakshmipat Singhania and his son late Mr Hari Shankar Singhania. The company is presently headed by Mr Bharat Hari Singhania, Chairman and Managing Director. The company had set up its first cement plant in 1982 with 0.5 mtpa capacity, which has now grown to 13.30 million tonnes per annum of cement. The company has a network of ~200 cement retailers and over 7000+ dealers. The company sells cement under the brand names 'JK Lakshmi Pro+', 'JK Sixer Cement' and 'Platinum'. The company has manufacturing plants spread across India at Sirohi (Rajasthan), Durg (Chattisgarh), Kalol (Gujarat), Palanpur (Gujarat), Surat (Gujarat), Jharli (Haryana), Orissa, Sikandrabad (Uttar Pradesh) and Kathua (Jammu and Kashmir).

JK Lakshmi Cement Ltd.

JKLC has a 72.5% stake in Udaipur Cement Ltd. The company has an integrated Cement Manufacturing unit with installed cement production capacity of 1.6 Million tonnes per annum (MTPA). It sells cement under the brand Platinum Heavy duty. Udaipur Cement Works plans to set up integrated 2.5 mnt capacity cement plant at Shripati Nagar in Udaipur district of Rajasthan.

Merger of Udaiur Cements with JK Lakshmi Cement may not happen in the coming three years as Udaipur Cements has incentives at the standalone levels for next couple of years; the two companies are on different tax rates as Udaipur Cements moved to new regime while JKLC currently in the older regime for atleast 3-4 years.

Journey



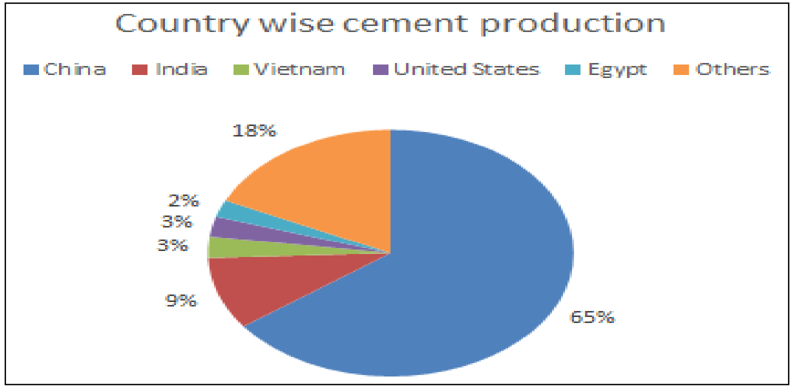
Brands

Source – Company, HDFC sec Research

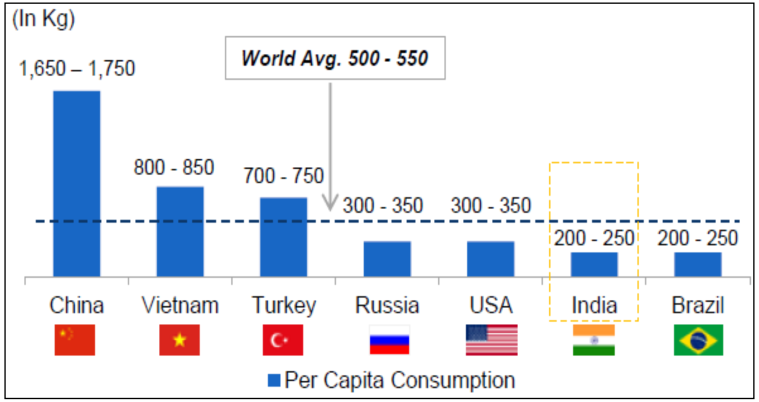
Industry

India is the second-largest cement producer in world. The cement industry occupies an important place in the Indian economy because of its strong linkages with other sectors such as construction, transportation, coal and power. The sector notably plays a critical role in the economic growth of the country, in its journey towards inclusive and decidedly conclusive growth. The construction sector alone constitutes about 7 per cent of the country's gross domestic product (GDP). India is the second-largest producer of cement in the world after China, with an installed capacity of ~509 MTPA. Presently, the Indian cement industry has 225 plants, owned by 65 players.

JK Lakshmi Cement Ltd.



Lower per capita cement consumption in India



Source – Statista, Shree Cement earning presentation, HDFC sec Research

Although India is among the leading producers of cement in the world, its per capita cement consumption is at 200-250 kg, which is lowest among the developing countries. The world average is 500-580 kg, while countries such as China have a per capita cement consumption of 1650-1750 kg, followed by Vietnam (800-850 kg) and Turkey (700-750 kg). The factors that could trigger cement sales are infrastructural demand especially for Government projects, as well as higher housing demand in rural and semi-urban areas. A higher realization and rising dispatches are considered to be conducive for higher profits for the cement industry. All efforts are targeted to increase sales and reach the premium segment in prices.

The government also intends to expand the capacity of the railways and the facilities for handling and storage to ease the transportation of cement and reduce transportation costs. The demand for the cement industry is expected to reach 550-600 million tonnes per annum by 2025 because of the expanding demand of different end users i.e. housing, commercial construction and industrial construction. Government thrust on affordable housing for realizing its vision of “Housing for All” by 2022 and Smart City program should also help in demand growth for cement. The rate of new cement capacity additions has also slowed down considerably. Therefore, the outlook for the cement sector looks better.

JK Lakshmi Cement Ltd.

Cement, being a bulk commodity, is a freight intensive industry and long-distance transportation can prove to be uneconomical. This has resulted in cement being largely a regional play with the industry divided into five main regions viz. north, south, west, east and the central region. Cement is relatively a highly concentrated industry in India: I) the top 10 companies constitute> 60% of the market; ii) the top 5 companies enjoy a market share of around > 48%, and iii) the top 2 cement groups (Lafarge Holcim and Aditya Birla Group) enjoy a market share of around 38%.

Peer Comparison as per FY20 Financial

Company	CMP (As on 14-11-2020)	Mcap (Rs. Cr.)	Capacity (MTPA)	OPM%	NPM%	RoE%	RoCE%	D/E(x)	TTM P/E (x)	TTM EV/T ($)	EBIDTA/T (Rs.)
JK Lakshmi Cement	340	3997	13.3	17	6	15	17	0.7	14	53	732
ACC	1668	31357	33.4	15	9	12	17	0.0	25	107	781
Ambuja Cement	259	51428	29.7	17	8	9	17	0.0	18	186	897
Dalmia Bharat	955	18623	26.5	22	2	2	5	0.5	38	110	1091
Shree Cement	23363	84340	40.4	29	12	13	16	0.2	49	284	1458
The Ramco Cement	852	20073	16.5	21	11	12	13	0.6	34	183	981
Ultratech Cement	4908	141645	114.8	22	9	12	14	0.7	23	189	1141
India Cements	127	3937	15.6	12	1	1	4	0.7	46	58	530
Heidelberg Cement	193	5983	6.26	24	12	22	28	0.2	18	88	1122
JK Cement	1896	14656	17.1	21	8	17	15	1	26.3	132	1186

Company	Regions wise Presence				
	North	West	South	East	Central
Ambuja Cement	Y	Y	Y	Y	Y
The Ramco Cement			Y	Y	
Ultratech Cement	Y	Y	Y	Y	Y
ACC	Y	Y	Y	Y	Y
Dalmia Bharat			Y	Y	Y
Shree Cement	Y	Y	Y	Y	
India Cements		Y	Y		
Heidelberg Cement					Y
JK Lakshmi Cement	Y	Y		Y	
JK Cement	Y	Y	Y		

JK Lakshmi Cement Ltd.

Financials

Income Statement

(Rs Cr)	FY18	FY19	FY20	FY21E	FY22E
Net Revenue	**3412**	**3882**	**4044**	**4181**	**4391**
Growth (%)	17.2	13.8	4.2	3.4	5.0
Operating Expenses	3001	3467	3371	3521	3700
EBITDA	**411**	**415**	**672**	**660**	**691**
Growth (%)	**12.6**	**0.9**	**62.0**	**-1.9**	**4.7**
EBITDA Margin (%)	**12.1**	**10.7**	**16.6**	**15.8**	**15.7**
Other Income	68.1	57.2	50.1	54.4	60.0
Depreciation	179.3	179.4	188.4	198.6	224.5
EBIT	**300**	**293**	**534**	**516**	**526**
Interest	197.5	188.3	164.4	132.9	136.0
Exceptional Items	0.0	0.0	-30.2	0.0	0.0
PBT	**103**	**104**	**339**	**383**	**390**
Tax	18.8	24.9	104.2	127.8	129.8
RPAT	**84**	**80**	**235**	**255**	**260**
Growth (%)	**2.4**	**-5.2**	**195.7**	**8.4**	**2.2**
EPS	7.1	6.8	20.0	21.7	22.1

Balance Sheet

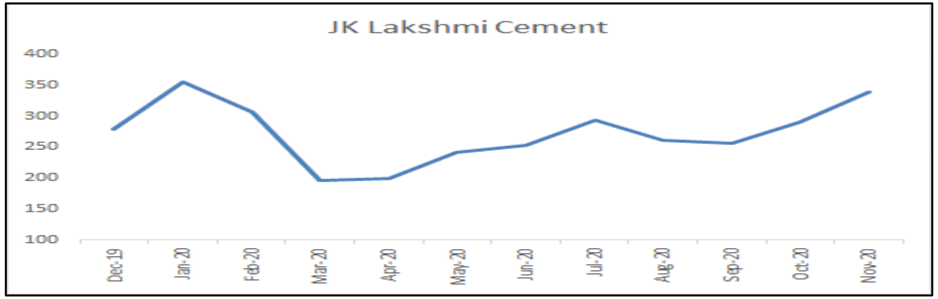
As at March	FY18	FY19	FY20	FY21E	FY22E
SOURCE OF FUNDS					
Share Capital	**58.9**	**58.9**	**58.9**	**58.9**	**58.9**
Reserves	1394	1464	1654	1897	2140
Minority Interest	0	0	0	0	0
Other Equity & Liabilities	0	0	0	0	0
Shareholders' Funds	**1453**	**1523**	**1713**	**1956**	**2199**
Long Term Debt	1398	1260	1078	1024	1229
Long Term Provisions & Others	311	362	428	474	578
Total Source of Funds	**3163**	**3145**	**3219**	**3454**	**4005**
APPLICATION OF FUNDS					
Net Block	3021	3050	2955	3157	3859
Non-Current Investments	355	358	368	375	375
Deferred Tax Assets (net)	20	22	0	0	0
Long Term Loans & Advances	88	87	100	110	116
Other Assets	0	0	0	0	0
Total Non Current Assets	**3484**	**3517**	**3423**	**3643**	**4350**
Current Investments	440	362	417	417	334
Inventories	317	312	413	367	397
Trade Receivables	97	107	88	115	120
Short term Loans & Advances	120	121	154	162	167
Cash & Equivalents	12	18	31	69	44
Other Current Assets	19	19	23	28	30
Total Current Assets	**1005**	**939**	**1126**	**1156**	**1092**
Short-Term Borrowings	413	59	105	105	114
Trade Payables	319	511	468	444	446
Other Current Liab & Provisions	581	723	752	790	869
Short-Term Provisions	13	18	5	6	7
Total Current Liabilities	**1326**	**1310**	**1331**	**1344**	**1437**
Net Current Assets	-321	-372	-205	-188	-345
Total Application of Funds	**3163**	**3145**	**3219**	**3454**	**4005**

JK Lakshmi Cement Ltd.

Cash Flow Statement

(Rs Cr)	FY18	FY19	FY20	FY21E	FY22E
Reported PBT	103	104	339	383	390
Non-operating & EO items	-68	-57	-50	-54	-60
Interest Expenses	197	188	164	133	136
Depreciation	179	179	188	199	225
Working Capital Change	148	57	-154	21	132
Tax Paid	-19	-25	-104	-128	-130
OPERATING CASH FLOW (a)	**541**	**448**	**384**	**553**	**693**
Capex	-168	-207	-80	-416	-927
Free Cash Flow	373	241	304	137	-234
Investments	-39	-5	-1	-17	-6
Non-operating income	68	57	50	54	60
INVESTING CASH FLOW (b)	**-139**	**-154**	**-31**	**-378**	**-872**
Debt Issuance / (Repaid)	-188	-87	-116	-7	308
Interest Expenses	-197	-188	-164	-133	-136
FCFE	-13	-35	24	-3	-61
Share Capital Issuance	0	0	0	0	0
Dividend	-9	-56	-38	-12	-18
FINANCING CASH FLOW (c)	**-394**	**-332**	**-319**	**-152**	**155**
NET CASH FLOW (a+b+c)	**8**	**-38**	**34**	**22**	**-24**

One Year Price Chart



Key Ratios

(Rs Cr)	FY18	FY19	FY20	FY21E	FY22E
Profitability (%)					
EBITDA Margin	12.1	10.7	16.6	15.8	15.7
EBIT Margin	8.8	7.5	13.2	12.3	12.0
APAT Margin	2.5	2.0	5.8	6.1	5.9
RoE	5.9	5.3	14.5	13.9	12.5
RoCE	9.5	9.3	16.6	14.9	13.1
Solvency Ratio					
D/E	1.2	0.9	0.7	0.6	0.6
Interest Coverage	1.5	1.6	3.2	3.9	3.9
PER SHARE DATA					
EPS	7.1	6.8	20.0	21.7	22.1
CEPS	22.4	22.0	36.0	38.5	41.2
BV	123	129	146	166	187
Dividend	0.8	0.8	3.3	1.0	1.5
Turnover Ratios (days)					
Debtor days	10	10	8	10	10
Inventory days	32	30	33	32	33
Creditors days	35	44	53	46	44
Working Capital Days	7	-4	-12	-4	-1
VALUATION					
P/E	47.6	50.2	17.0	15.7	15.3
P/BV	2.8	2.6	2.3	2.0	1.8
EV/EBITDA	12.9	12.8	7.9	8.0	7.7
Dividend Yield	0.2	0.2	1.0	0.3	0.4
Dividend Payout	1.7	11.1	16.3	4.6	6.8

Source: Company, HDFC sec Research

Disclosure:

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HDFC securities Limited, I Think Techno Campus, Building - B, "Alpha", Office Floor 8, Near Kanjurmarg Station, Opp. Crompton Greaves, Kanjurmarg (East), Mumbai 400 042 Phone: (022) 3075 3400 Fax: (022) 2496 5066
Compliance Officer: Binkle R. Oza Email: complianceofficer@hdfcsec.com Phone: (022) 3045 3600
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