1 August 2021

JK Lakshmi Cement

Rating: **Buy**
Target Price: Rs.887
Share Price: Rs.692

Deleveraging exercise, WHRS to provide a boost; retaining a Buy

Lockdown-curbed softer demand and higher input costs hit JK Lakshmi's q/q performance. On the low base and more clinker sales, however, its revenue/EBITDA/PAT grew 49%/51%/167%. Debottlenecking at UCW was completed, and financial closure for the 2.5m-ton expansion will be done by Q2. The Sirohi WHRS expansion and debottlenecking are other positives. We retain our Buy call, with a TP of Rs.887 (Rs.628 earlier).

Cement volumes to grow ~10% in FY22. The low base and more clinker sales led to cement sales volumes rising a robust 40% y/y to 2.66m tons. Further, realisations rising 7% y/y pushed up revenue 49% y/y to Rs12.3bn. Non-cement revenue grew 169% y/y to 780m. In Q2 FY22 the monsoon will curb demand, and prices are expected to rise from mid-Sep'21. FY22 cement volumes are guided to rise 10-11% y/y. We expect cement volumes/revenue to clock a 6%/9% CAGR over FY21-23.

8MW WHRS to commence by Q3. EBITDA grew 51% y/y to Rs2.2bn; per ton EBITDA, 8% y/y to Rs813 (though q/q down 12%). Fuel stocks for 3-4 months have been built up, where fuel consumption cost is expected to rise 14% q/q and diesel cost 27% q/q. The 8MW Sirohi WHRS is expected to commence by Q3 FY22 offering some respite to high costs. Efforts to reduce the proportion of petcoke, rationalisation of logistics, more premium cement sales volume would help. We expect EBITDA at a 12% CAGR over FY21-23.

Business outlook, Valuation. Debottlenecking was completed at UCW, expanding clinker/cement capacities to 1.5m/2.2m tons. Financial closure for the 2.5m-ton cement (1.5m-ton clinker) expansion at UCW is expected by Q2 FY22. Gross debt on 30th Jun'21 was Rs10.95bn, with debt repayment liability in FY22 of Rs3.3bn. The recently acquired limestone reserves in Rajasthan and Gujarat will help expanding capacities and maintain market share in its operating regions. Further, it aims at Rs5bn revenue in coming years from value-added products. We retain our Buy rating, with a target of Rs887, on 10x FY23e EV/EBITDA. **Risks:** Demand slowdown; rise in fuel prices.

Key financials (YE Mar)	FY19	FY20	FY21	FY22e	FY23e
Sales (Rs m)	38,823	40,435	43,847	48,678	51,706
Net profit (Rs m)	796	2,655	3,947	4,690	5,535
EPS (Rs)	6.8	22.6	33.5	39.8	47.0
P/E (x)	51.4	8.7	12.9	17.4	14.7
EV / EBITDA (x)	13.1	5.2	7.1	9.1	7.7
EV / ton ($)	67.6	41.3	64.8	96.7	90.0
RoE (%)	5.3	14.5	19.2	20.4	20.0
RoCE (%)	5.3	10.2	13.0	14.4	15.7
Dividend yield (%)	0.2	1.3	0.9	0.4	0.4
Net gearing (x)	0.9	0.7	0.2	0.0	-0.1

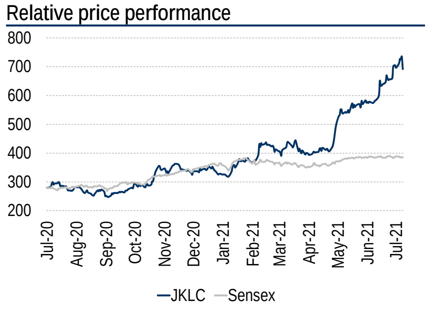
Source: Company, Anand Rathi Research

Key data	JKLC IN / JKLC BO
52-week high / low	Rs.816 / 243
Sensex / Nifty	52587 / 15763
3-m average volume	$7.5m
Market cap	Rs.81bn / $1094.2m
Shares outstanding	118m

Shareholding pattern (%)	Jun'21	Mar'21	Dec'20
Promoters	46.2	46.2	46.2
- of which, Pledged	-	-	-
Free float	53.8	53.8	53.8
- Foreign institutions	10.3	10.6	10.7
- Domestic institutions	27.6	26.3	23.9
- Public	16.0	16.9	19.3

Estimates revision (%)	FY22e	FY23e
Sales	4.8	3.5
EBITDA	3.2	1.8
PAT	3.4	1.1

Relative price performance



Source: Bloomberg

Manish Valecha
Research Analyst

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Research Associate

Quick Glance – Financials and Valuations

Fig 1 – Income statement (Rs m)

Year-end: Mar	FY19	FY20	FY21	FY22e	FY23e
Sales volume (m tons)	9.7	9.2	9.9	10.6	11.1
Net revenues	38,823	40,435	43,847	48,678	51,706
Growth (%)	*13.8*	*4.2*	*8.4*	*11.0*	*6.2*
Direct costs	26,908	25,128	27,468	30,748	32,460
SG&A	7,765	8,584	8,481	8,821	9,262
EBITDA	4,150	6,724	7,898	9,109	9,985
EBITDA margins (%)	*10.7*	*16.6*	*18.0*	*18.7*	*19.3*
- Depreciation	1,794	1,884	1,942	2,046	2,154
Other income	572	501	745	730	776
Interest expenses	1,883	1,644	1,425	996	585
PBT	1,044	3,697	5,275	6,797	8,022
Effective tax rate (%)	*24*	*31*	*27*	*31*	*31*
+ Associates / (Minorities)	-	-	-	-	-
Net income	796	2,352	3,638	4,690	5,535
Adjusted income	796	2,655	3,947	4,690	5,535
WANS	118	118	118	118	118
FDEPS (Rs / sh)	6.8	22.6	33.5	39.8	47.0
FDEPS growth (%)	*-5.2*	*233.7*	*48.7*	*18.8*	*18.0*

Fig 2 – Balance sheet (Rs m)

Year-end: Mar	FY19	FY20	FY21	FY22e	FY23e
Share capital	589	589	589	589	589
Net worth	15,227	17,127	20,789	25,126	30,308
Debt	17,446	16,087	12,161	8,161	4,161
Minority interest					
DTL / (Assets)	-220	205	641	641	641
Capital employed	32,452	33,419	33,592	33,929	35,111
Net tangible assets	26,334	27,994	26,590	28,078	26,475
Net intangible assets	51	38	25	25	25
Goodwill	-	-	-	-	-
CWIP (tang. & intang.)	4,111	1,519	2,275	400	250
Investments (strategic)	3,573	3,673	3,838	4,338	6,338
Investments (financial)	3,629	4,174	3,673	3,673	3,673
Curr. assets (ex cash)	6,456	7,786	6,622	8,609	9,031
Cash	180	314	3,591	3,308	4,533
Current liabilities	11,882	12,080	13,022	14,503	15,214
Working capital	-5,426	-4,294	-6,400	-5,894	-6,183
Capital deployed	32,452	33,419	33,592	33,929	35,111
Contingent liabilities	1,533	1,802	-	-	-

Fig 3 – Cash-flow statement (Rs m)

Year-end: Mar	FY19	FY20	FY21	FY22e	FY23e
PBT (adj. OI and interest)	2,356	4,840	5,956	7,063	7,831
+ Non-cash items	1,794	1,884	1,942	2,046	2,154
Oper. prof. before WC	4,150	6,724	7,898	9,109	9,985
- Incr. / (decr.) in WC	-2,657	1,132	-2,106	506	-289
Others incl. taxes	272	612	904	2,107	2,487
Operating cash-flow	6,535	4,980	9,099	6,496	7,787
- Capex (tang. + intang.)	2,079	939	1,281	1,660	400
Free cash-flow	4,456	4,041	7,818	4,836	7,387
Acquisitions					
- Div. (incl. buyback & taxes)	106	355	441	353	353
+ Equity raised	-	-	-	-	-
+ Debt raised	-3,727	-1,358	-3,926	-4,000	-4,000
- Fin investments	-745	645	-337	500	2,000
- Misc. (CFI + CFF)	1,304	1,549	511	266	-190
Net cash-flow	64	134	3,277	-283	1,224

Source: Company, Anand Rathi Research

Fig 4 – Ratio analysis

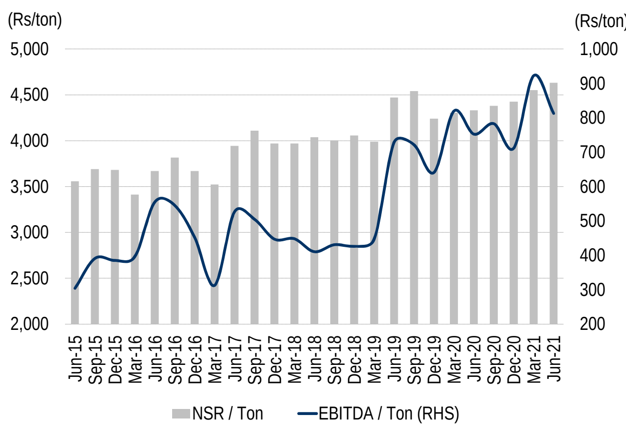
Year-end: Mar	FY19	FY20	FY21	FY22e	FY23e
P/E (x)	51.4	8.7	12.9	17.4	14.7
EV / EBITDA (x)	13.1	5.2	7.1	9.1	7.7
EV / Sales (x)	1.4	0.9	1.3	1.7	1.5
P/B (x)	2.7	1.3	2.4	3.2	2.7
RoE (%)	5.3	14.5	19.2	20.4	20.0
RoCE (%) - after tax	5.3	10.2	13.0	14.4	15.7
DPS (Rs / sh)	0.8	2.5	3.8	3.0	3.0
Dividend payout (%) - incl. DDT	13.4	15.1	12.1	7.5	6.4
Net debt / equity (x)	0.9	0.7	0.2	0.0	-0.1
Working capital (days)	-51.0	-38.8	-53.3	-44.5	-44.5
EV / ton ($)	67.6	41.3	64.8	96.7	90.0
NSR / ton (Rs)	4,020	4,383	4,434	4,574	4,654
EBITDA / ton (Rs)	430	729	799	856	899
Volumes	9.66	9.23	9.89	10.64	11.11
CFO : PAT %	821.4	187.6	230.5	138.5	140.7

Source: Company, Anand Rathi Research

Fig 5 – Price movement

Source: Bloomberg

Fig 6 – Quarterly per-ton NSR and EBITDA trends



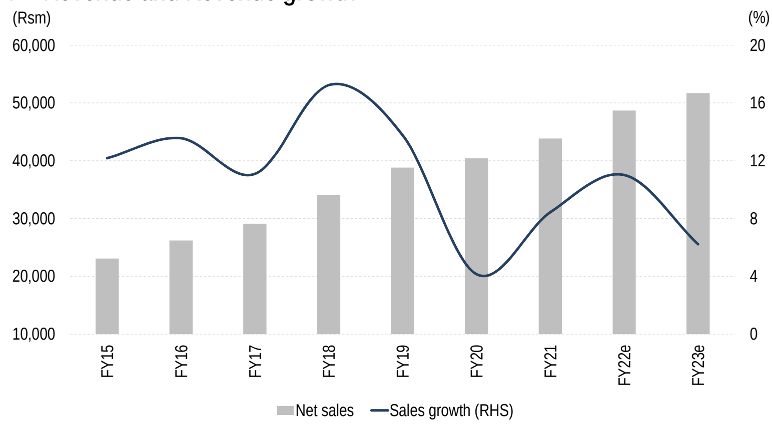
Source: Company

Other key highlights

Revenue growth

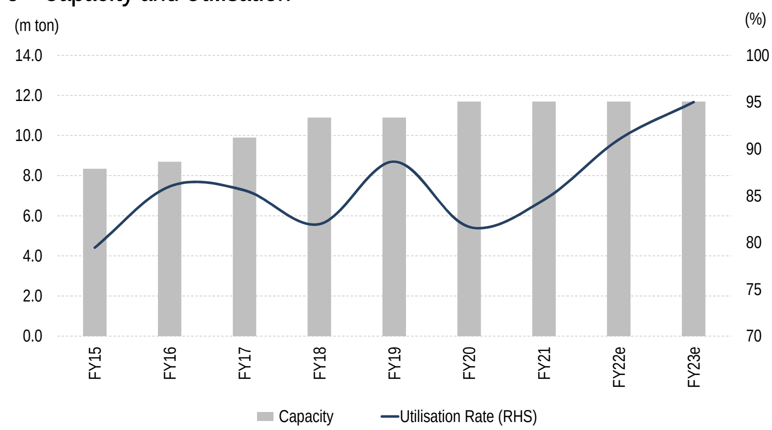
JK Lakshmi's Q1 revenue rose 49% y/y to Rs12bn on the 39.5% y/y rise in volumes (to 2.66m tons), and 7% in realisations. Sales of value-added products (RMC/POP/AAC blocks/putty, etc.) were Rs.780m (Rs.290m the previous quarter). Sales volumes of premium cement were ~25% of trade volumes, whereas the proportion of non-trade volumes rose to 53%. The 2nd wave of Covid-19 cut demand in April and May from March (greater impact on trade sales). Cement prices in the North softened a little; management expects them to rise again in mid-Sep'21, post-monsoons.

Fig 7 – Revenue and Revenue growth



Source: Company, Anand Rathi Research

Fig 8 – Capacity and Utilisation

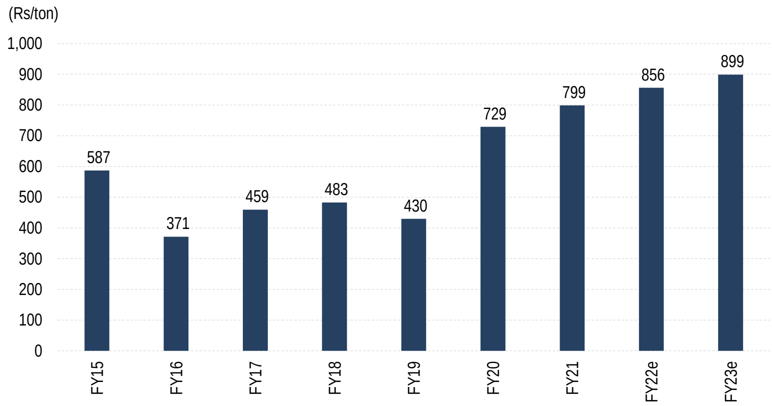


Source: Company, Anand Rathi Research

Operating performance

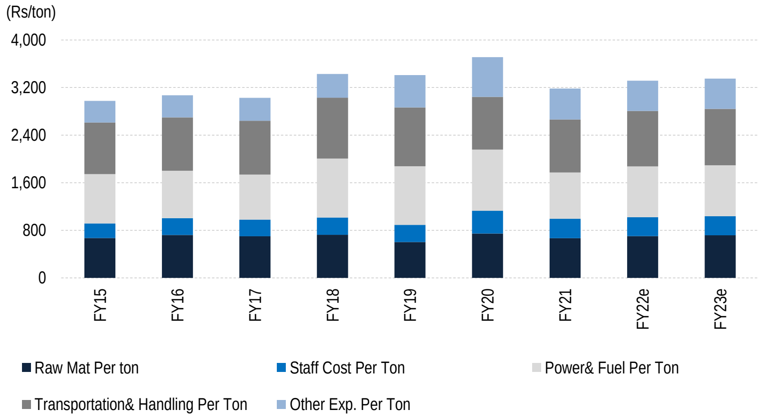
Absolute EBITDA rose 50.7% y/y to Rs.2.2bn. EBITDA/ton grew 8% y/y to Rs813. Higher diesel prices pushed up freight cost/ton 7.3% y/y. High coal/petcoke prices increased raw-material costs 71.4% y/y and power & fuel cost 32% y/y. Salary and other expenses on an absolute basis rose respectively 2.8% and 69.4% y/y. The greater operating profit, 106.5% y/y higher other income and interest cost down 32% y/y boosted adj. profit 167% y/y to Rs1,187m.

Fig 9 – EBITDA-per-ton trend



Source: Company, Anand Rathi Research

Fig 10 – Cost-per-ton trend



Source: Company, Anand Rathi Research

Result Highlights

Fig 11 – Quarterly trend

(Rs m)	Q3 FY19	Q4 FY19	Q1 FY20	Q2 FY20	Q3 FY20	Q4 FY20	Q1 FY21	Q2 FY21	Q3 FY21	Q4 FY21	Q1 FY22	% Y/Y	% Q/Q
Sales	9350	11725	10419	9355	10050	10612	8252	10448	11928	13220	12315	*49.2*	*(6.8)*
EBITDA	983	1312	1698	1487	1519	2020	1433	1867	1918	2679	2161	*50.7*	*(19.3)*
EBITDA margins (%)	*10.5*	*11.2*	*16.3*	*15.9*	*15.1*	*19.0*	*17.4*	*17.9*	*16.1*	*20.3*	*17.5*	*17bps*	*-272bps*
EBITDA per ton (Rs)	426	446	729	722	641	820	752	783	712	922	813	*8.0*	*(11.9)*
Interest	474	460	402	390	428	425	378	381	367	299	257	*(32.2)*	*(14.3)*
Depreciation	451	446	453	437	485	510	484	493	487	478	460	*(5.0)*	*(3.8)*
Other income	139	168	61	68	147	225	82	183	207	273	169	*106.5*	*(38.3)*
PBT	198	574	603	727	754	1,311	653	1,176	1,272	1,865	1,613	*147.0*	*(13.5)*
Exceptional item	-	-	302	-	-	-	-	-	-	309	-	*NA*	*NA*
Tax	50	142	209	268	262	303	209	370	248	500	426	*103.9*	*(14.9)*
Reported PAT	148	432	394	459	492	1,007	444	806	1,023	1,365	1,187	*167.2*	*(13.0)*
Adj. PAT	148	432	696	459	492	1,007	444	806	1,023	1,674	1,187	*167.2*	*(29.1)*

Source: Company, Anand Rathi Research

Fig 12 – Per-ton analysis

(Rs)	Q3 FY19	Q4 FY19	Q1 FY20	Q2 FY20	Q3 FY20	Q4 FY20	Q1 FY21	Q2 FY21	Q3 FY21	Q4 FY21	Q1 FY22	%Y/Y	%Q/Q
Realisations	4,056	3,989	4,472	4,541	4,240	4,305	4,331	4,381	4,426	4,552	4,633	*7.0*	*1.8*
EBITDA	426	446	729	722	641	820	752	783	712	922	813	*8.0*	*(11.9)*
Sales volumes (m tons)	2.3	2.9	2.3	2.1	2.4	2.5	1.9	2.4	2.7	2.9	2.7	*39.5*	*(8.5)*
Costs													
Raw material	726	637	726	824	622	633	485	698	725	749	832	*71.4*	*11.1*
Purchase of traded goods	180	169	297	366	364	330	278	375	410	354	378	*36.1*	*6.9*
Power & Fuel	969	872	958	1,014	891	813	690	863	799	782	908	*31.5*	*16.1*
Staff	284	231	343	360	332	308	424	335	323	273	312	*(26.3)*	*14.5*
Freight	996	939	914	895	870	868	870	852	901	935	934	*7.3*	*(0.1)*
Other expenditure	424	500	669	478	556	538	473	498	571	545	574	*21.4*	*5.3*

Source: Company, Anand Rathi Research

Concall Highlights

- **Volumes.** Sales of cement (incl. 0.369m tons of clinker) rose 39.5% y/y in Q1 FY22 to 2.66m tons. Cement and clinker produced were respectively 2.088m and 1.745m tons. Consolidated sales were 2.825m tons (excl. inter-corporate sales of 0.426m tons). UCW cement sales were 0.593m tons (0.581m tons a year back). Clinker sales increased owing to demand uncertainty (lockdowns in April and May'21) and to dull demand expected (Q2 monsoon).
- **Demand/pricing contest.** The monsoon is expected to curb demand till Sep'21. Prices in the North are under pressure, whereas in the East and Gujarat they have been steady. Cement prices are expected to rise from mid-Sep'21. Volumes are expected to grow 10-11% in FY22.
- **Cost.** Raw-material costs rose due to high flyash/gypsum and clinker purchased (0.194m tons). The company has built up fuel stocks for 3-4 months. The Q2 FY22 average consumption cost will be Rs8,000/ton (Rs7000 a year back, Rs6,600 the previous quarter). The contract with BCG has ended. Diesel prices have risen 15% from the prior quarter and 27% from a year ago.
- **Value-added products.** Sales of value-added products (RMC/POP/AAC blocks/putty, etc.) were Rs780m (Rs290m a year back, Rs950m the quarter prior). In coming years, the company aims at Rs5bn revenue from value-added products.
- **Capex and Expansion**
  - **Expansion at UCW.** De-bottlenecking at UCW (~0.3m tons clinker to 1.5m tons; ~0.6m tons cement to 2.2m tons) was completed in Jun'21 at Rs600m capex. The company will expand its cement capacity by 2.5m tons (1.5m-ton clinker) incl. a railway siding.

    The expansion will take three years from financial closure (Q2 FY22) where the cement and clinker unit (at the mother plant) will be complete in two years and two split-grinding units will be set up in the third year. On completion, UCW's capacity will increase to 3m tons clinker, 4.7m tons cement.

    The Rs14bn capex would be funded through debt (70%) and equity (30%). The latter would be from internal accruals and infusions by the parent, which will provide a corporate guarantee for the loan. Major capex would be incurred in FY23/24.
  - **Merger with UCW**. A merger decision will be made after the cessation of the MAT benefit availed of by JK Lakshmi. At present, UCW has adopted Sec.115-B of The Income Tax Act, 1962, of a low 25% tax while JK Lakshmi is on the old tax regime of 34%.
  - **WHRS expansion**. The 8MW WHR unit-III at Sirohi is expected to be commissioned by Q3 FY22 at Rs1.75bn capex. A flyash dryer will also be constructed, at Rs100m-150m.
  - Maintenance capex would be Rs300m-400m
- **Debt.** Gross debt (standalone) was Rs10.95bn on 30st Jun'21 (on 31st Mar'21, Rs11.25bn); consolidated Rs16.65bn (incl. Rs5.5bn at UCW). Net debt (standalone) was Rs4.35bn (30th Jun'21; Rs4bn, 31st Mar'21),

consolidated Rs8.53bn (incl. Rs4.1bn at UCW). The company has a repayment liability in FY22 of Rs3.3bn.

- **Operational data**
  - At the consolidated level, pet-coke in the fuel mix was 40%, coal 54%. alternative fuel (biomass) 6%.
  - The trade and non-trade mix was ~ 53:47. Premium cement sales volumes were ~25% of trade volumes (32% the previous quarter, 20% in Q4 FY21). Blended cement sales volumes were 58% of overall volumes.
  - The company won limestone reserves in Rajasthan and Gujarat in auction. This will help in it maintain market share in its operating region by expanding capacities.

Valuations

At the CMP, the stock quotes at 7.7x FY23e EV/EBITDA. We retain our Buy rating on it, with a higher target price of Rs887, on 10x FY23e EV/EBITDA, reflecting an EV/ton of $117.

Change in estimates

We have raised our FY22e/FY23e revenues ~4.8%/3.5%. Our FY22e EBITDA/PAT we raise 3.2%/3.4% and, for FY23, 1.8%/1.1%.

Fig 13 – Change in estimates

	New		Old		% Variance	
(Rs m)	FY22	FY23	FY22	FY23	FY22	FY23
Sales	48,678	51,706	46,456	49,965	*4.8*	*3.5*
EBITDA	9,109	9,985	8,829	9,812	*3.2*	*1.8*
PAT	4,690	5,535	4,534	5,476	*3.4*	*1.1*

Source: Anand Rathi Research

Fig 14 – EV/EBITDA band, one-year-forward

Source: Bloomberg, Anand Rathi Research

Fig 15 – EV/EBITDA: Standard deviation, one-year-forward

Source: Bloomberg, Anand Rathi Research

Fig 16 – Peer comparison – valuations

	CMP	P/E		EV / EBITDA		EV / ton ($)	
	(Rs)	FY22e	FY23e	FY22e	FY23e	FY22e	FY23e
JK Lakshmi	692	17.4	14.7	9.1	7.7	97	90
Birla Corp.	1,491	22.4	18.0	10.7	8.8	90	81
Dalmia Bharat	2,139	36.3	28.6	13.8	11.9	164	158
Deccan Cement	729	9.5	9.2	6.0	6.8	62	80
Heidelberg Cement	264	20.8	17.4	11.0	9.4	120	113
India Cement	192	19.8	16.3	9.3	8.3	74	72
JK Cement	3,257	28.5	24.5	15.8	14.0	232	228
Mangalam Cement	456	8.4	7.1	5.0	4.0	46	41
Orient Cement	160	11.2	10.1	5.9	5.7	61	62
Prism Johnson	138	29.2	23.3	10.9	9.4	94	89
Ramco Cement	1,096	31.2	24.3	17.4	13.7	199	182
Star Cement	111	15.5	13.6	10.1	9.0	99	100
Sanghi Industries	66	21.7	12.9	11.5	9.4	68	65

Source: Company, Anand Rathi Research

Risk

- Demand slowdown.
- Rising prices of pet-coke and diesel.

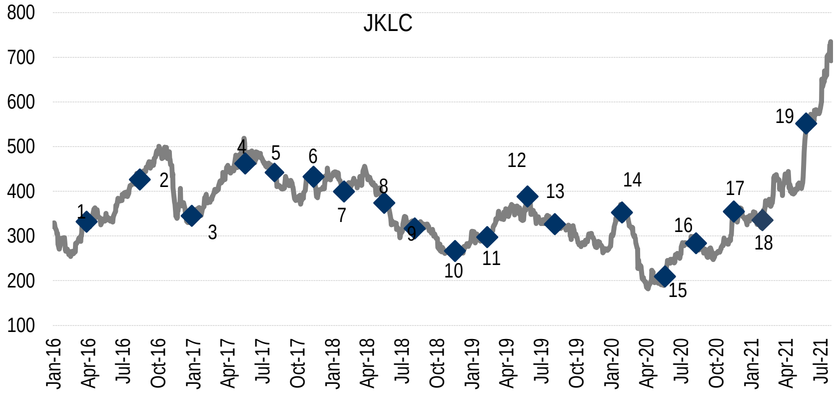
Appendix

Analyst Certification

The views expressed in this Research Report accurately reflect the personal views of the analyst(s) about the subject securities or issuers and no part of the compensation of the research analyst(s) was, is, or will be directly or indirectly related to the specific recommendations or views expressed by the research analyst(s) in this report. The research analysts are bound by stringent internal regulations and also legal and statutory requirements of the Securities and Exchange Board of India (hereinafter "SEBI") and the analysts' compensation are completely delinked from all the other companies and/or entities of Anand Rathi, and have no bearing whatsoever on any recommendation that they have given in the Research Report.

Important Disclosures on subject companies

Rating and Target Price History (as of 1 August 2021)



	Date	Rating	TP (Rs)	Share Price (Rs)
4	19-May-17	Hold	521	482
5	5-Aug-17	Hold	492	453
6	14-Nov-17	Buy	561	441
7	3-Feb-18	Buy	532	405
8	19-May-18	Buy	500	380
9	6-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
13	8-Aug-19	Buy	464	329
14	30-Jan-20	Buy	462	355
15	22-May-20	Buy	325	206
16	10-Aug-20	Buy	370	286
17	9-Nov-20	Buy	388	287
18	3-Feb-21	Buy	453	358
19	22-May-21	Buy	628	493

Anand Rathi Ratings Definitions

Analysts' ratings and the corresponding expected returns take into account our definitions of Large Caps (>US$1bn) and Mid/Small Caps (<US$1bn) as described in the Ratings Table below:

Ratings Guide (12 months)	Buy	Hold	Sell
Large Caps (>US$1bn)	>15%	5-15%	<5%
Mid/Small Caps (<US$1bn)	>25%	5-25%	<5%

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