

J K Lakshmi Cement

 BSE code: 500380
 NSE code: JKLAISHMI

CMP: Rs 177
Target: Rs 324
BUY
Dalpat Mehta

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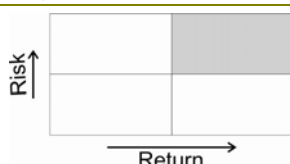
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Company data

Particulars	
Market cap (Rs bn / US\$ mn)	10.1/256.0
Outstanding equity shares (mn)	57.1
52-week high/low (Rs)	210/97
2-month average daily volume	116,478

Financial snapshot

Particulars	FY07	FY08E	FY09E
Sales (Rs mn)	8,438.3	11,300.0	12,150.0
Growth (%)	44.9	33.9	7.5
Adj net profit (Rs mn)	1,781.1	2,500.0	2,805.0
Growth (%)	221.2	40.4	12.2
FDEPS (Rs)	31.2	40.9	45.8
Growth (%)	180.0	30.9	12.2
P/E (x)	5.7	4.3	3.9
ROE (%)	62.2	47.3	35.3

Risk-return profile

Shareholding pattern

(%)	Sep-07	Jun-07
Promoters	41.7	41.7
FIs	6.6	2.6
Banks & FIs	18.9	20.3
Public	32.8	35.4

Stock performance

Returns (%)	CMP	1-mth	3-mth	6-mth
J K Lakshmi	177	(2.6)	18.2	65.5
Sensex	19,035	3.3	26.9	36.3

Company website www.jklakshmicement.com
Above expectations, new power plant improves margins

J K Lakshmi Cement's (JKLC) second quarter results have surpassed our expectations with net sales increasing 63.9% YoY to Rs 2.7bn as against our estimate of Rs 2.4bn. The EBITDA margin improved sharply from 24.2% in Q2FY07 to 34.3% during the quarter as the company witnessed substantial savings on power costs with the commencement of phase-I of its 18MW power plant in March. This led to robust EBITDA growth of 132% YoY to Rs 916.9mn. Relatively lower depreciation, flattish interest cost and higher other income elevated PAT growth to 214.5% YoY to Rs 735mn (58% higher than our estimate). This resulted in an EPS of Rs 12.9 for the quarter and Rs 24.9 for the first half of the fiscal. We maintain our target price of Rs 324 for the stock and continue to recommend a Buy.

Actual vs estimated performance

(Rs mn)	Actual	Estimated	% Variance
Net sales	2,675	2,400	11.5
EBIDTA	917	750	22.3
PAT	735	465	58.1
EPS (Rs)	12.9	8.1	58.1

Source: Company, Religare Research

Quarterly results

(Rs mn)	Q2FY08	Q2FY07	% Chg YoY	Q1FY08	% Chg QoQ
Net sales	2,675.4	1,632.1	63.9	2,664.2	0.4
EBIDTA	916.9	395.6	131.8	859.4	6.7
Depreciation	145.2	109.4	32.7	145.2	0.0
EBIT	771.7	286.2	169.6	714.2	8.1
Interest	57.1	57.5	(0.7)	49.0	16.5
Other income	22.6	7.0	222.9	20.6	9.7
PBT	737.2	235.7	212.8	685.8	7.5
Tax	2.2	2.0	10.0	1.2	83.3
PAT	735.0	233.7	214.5	684.6	7.4
EPS (Rs)	12.9	4.09	214.5	11.99	7.4

Margins (%)

EBIDTA	34.3	24.2	32.3	34.3
EBIT	28.8	17.5	26.8	28.8
PBT	27.6	14.4	25.7	27.6
PAT	27.5	14.3	25.7	27.5

Source: Company, Religare Research

Result highlights

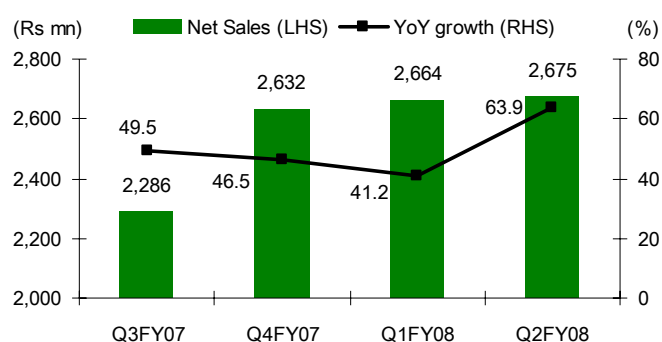
Cement sale volumes up 36% YoY to 869,000MT

Net sales up 64% YoY supported by strong volumes

Net sales for Q2FY08 stood at Rs 2.7bn as against Rs 1.6bn for the corresponding year-ago quarter, a growth of 63.9%. The growth was supported by higher volume sales of 869,000MT as against 640,000MT in the same year-ago quarter, reflecting a growth of 36%. JKLC raised its production capacity from 2.4mn tonnes (MnT) to 3.4MnT in March, aiding volume growth. With demand for cement remaining robust, the enhanced capacity was fully absorbed in the market.

The company markets its products mainly in the northern and western regions. Since July to September is the monsoon season, it is typically a lean period for the company. Hence, QoQ growth was restricted to 0.4%.

Sales growth trend



Source: Company, Religare Research

Power cost has declined to 21.9% of net sales from 27.6% in Q2FY07

EBIDTA margin expands 1,010bps

JKLC's operating profit increased 132% YoY to Rs 917mn as against Rs 395.6mn in Q2FY07. The strong growth was led by a substantial increase in the EBIDTA margin to 34.3% as against 24.2% in Q2FY07. The improved margin was a result of strict control over all major heads of expenses especially raw material, power and freight. Power cost has declined to 21.9% of net sales from 27.6% in Q2FY07 and 22.5% in Q1FY08.

Strong operational performance, flat interest cost aids 215% rise in PAT

PAT at Rs 735mn has expanded 215% over Rs 233.7mn for the corresponding year-ago quarter. Depreciation has increased by 32.7% to Rs 145.2mn due to the impact of capacity additions made in March. However, interest cost remained flat as the company utilised funds infused through equity and converted a part of its term loan to equity. This has resulted in an EPS of Rs 12.9 for the quarter and Rs 24.9 for the first half on an equity base of Rs 571mn.

Strong first half performance

During H1FY08, the company has achieved net sales of Rs 5.3bn as against Rs 3.5bn, a growth of 51.7% on account of a 42% increase in capacity to 3.4MnT (commissioned in March). Volume sales of cement rose 25.9% from 1.4MnT to 1.8MnT with better price realisations.

The company's EBIDTA margin improved by 520bps over H1FY07, resulting in a 79% rise in operating profit to Rs 1.8bn. PAT is significantly up by 128% on account of lower interest charges and tax provisions as the company has carry forward tax losses.

H1FY08 results

(Rs mn)	H1FY08	H1FY07	% Chg	FY07
Net Sales	5,339.6	3,519.5	51.7	8,438.3
EBIDTA	1,776.3	990.2	79.4	2,560.1
Depreciation	290.4	218.6	32.8	443.3
EBIT	1,485.9	771.6	92.6	2,116.8
Interest	106.1	120.1	(11.7)	361.4
Other income	43.2	11.7	269.2	32.8
PBT	1,423.0	663.2	114.6	1,788.2
Tax	3.4	41.0	(91.7)	7.1
PAT	1,419.6	622.2	128.2	1,781.1
EPS (Rs)	24.9	10.9	128.2	31.2

Margins (%)

EBIDTA	33.3	28.1	30.3
EBIT	27.8	21.9	25.1
PBT	26.6	18.8	21.2
PAT	26.6	17.7	21.1

Source: Religare Research

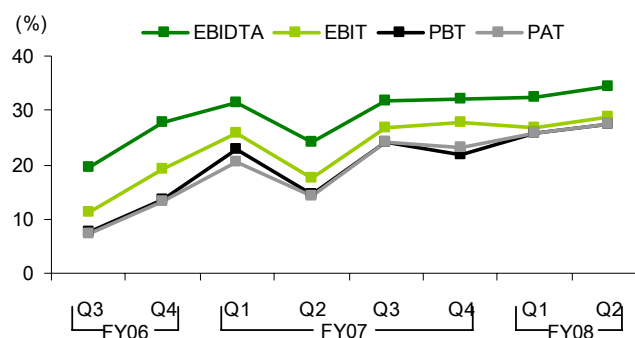
Other highlights

EBITDA margin expected to move up further to 35–36% from FY08, comparable with peers

Consistent margin improvement

JKLC has recorded a steady increase in its EBITDA margin from 7.1% in FY04 to 30.3% in FY07. We expect the margin to move up further to 35–36% from FY08 onwards, comparable with industry peers. An emphasis on technology upgrades has resulted in higher capacity utilisation at the plant. Further, capacity additions have also helped JKLC to establish its brand in the market and improve margins.

EBITDA margin trend



Source: Company, Religare Research

Investing Rs 4bn towards capacity expansion to 5MnT

Expanding capacity to 5MnT by Oct 2008

The company's cement production capacity currently stands at 3.4MnT following commissioning of the 1MnT plant at Rajasthan in March. The company is further increasing its capacity to 5MnT by October 2008 at an investment of Rs 4bn. This will give it the second largest cement production capacity at a single location after Ultratech.

Investing Rs 560mn to set up 7 RMC plants by the end of FY08

Aggressively pursuing the RMC business

JKLC plans to set up 15–20 ready-mix concrete (RMC) plants at an investment of Rs 80mn–100mn per unit in the coming years. Of this, the company is investing Rs 560mn to set up seven RMC plants in Rajasthan, Gujarat and Punjab by the end of the current fiscal, taking its total tally of RMC units to twelve. It has already launched Punjab's first RMC plant in Mohali.

JKLC has been aggressively pursuing the RMC business in the belief that the new trend of using ready-mix concrete would replace the conventional site-mix concrete at a much faster pace than envisaged earlier. Already, RMC has replaced 10% of cement demand. Bulk users in the real estate business are increasingly using RMC to save on time and cost overruns in projects. In cities like Gurgaon which are in the midst of a construction boom, almost 70% of cement consumption is in the form of RMC. The company is also exploring other value-added products which will advance its efforts to expand into newer markets

Valuation

Target of Rs 324 based on a P/E of 8x on FY08E; Buy

Maintain Buy with a target of Rs 324

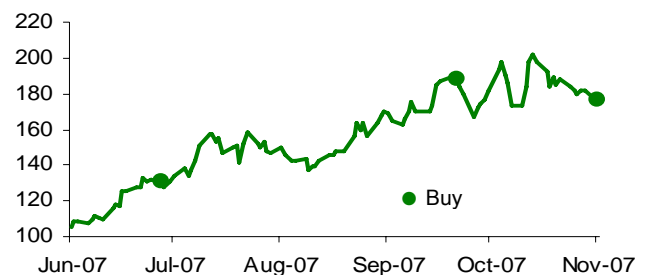
We expect JKLC to deliver a topline CAGR of 18% to Rs 13.9bn over FY07-FY10 with an earnings CAGR of 23% to Rs 3.3bn. This will translate into an EPS of Rs 40.9 for FY08 and Rs 45.8 for FY09. At the current price of Rs 177, the stock trades at a P/E of 4.3x and 3.9x on FY08E and FY09E respectively and an EV/EBIDTA of 4x and 3.6x respectively. The EV/Tonne for FY08 stands at US\$114. Considering the company's excellent results, planned capacity expansion to 5MnT and aggressive pursuit of the RMC business, we recommend a Buy on the scrip with a price target of Rs 324 in the next six months. Our target is based on a P/E of 8x on FY08E.

Recommendation history

Date	Event	Reco price	Tgt price	Reco
10-Jul-07	Quarterly Preview	131	243	Buy
05-Oct-07	Quarterly Preview	188	324	Buy
14-Nov-07	Results Update	177	324	Buy

Source: Religare Research

Stock performance



Source: Religare Research

Financials

Profit and Loss statement

(Rs mn)	FY06	FY07	FY08E	FY09E
Revenues	5,824.8	8,438.3	11,300.0	12,150.0
Growth (%)	19.7	44.9	33.9	7.5
EBITDA	1209.1	2,560.1	3,800.0	4,300.0
Growth (%)	78.8	111.7	48.4	13.2
Depreciation	530.7	443.3	600.0	700.0
EBIT	678.4	2,116.8	3,200.0	3,600.0
Growth (%)	263.1	212.0	51.2	12.5
Interest	194.9	361.4	300.0	350.0
Other income	79.0	32.8	40.0	50.0
EBT	562.5	1,788.2	2,940.0	3,300.0
Growth (%)	133.9	217.9	64.4	12.2
Tax	8.0	7.1	440.0	495.0
Effective tax rate	1.4	0.4	15.0	15.0
Adj net income	554.5	1,781.1	2,500.0	2,805.0
Growth (%)	126.5	221.2	40.4	12.2
Shares outstanding (mn)	49.8	57.1	61.2	61.2
FDEPS (Rs)	11.1	31.2	40.9	45.8
DPS (Rs)	-	1.0	2.0	3.0
CEPS (Rs)	21.8	39.0	50.7	57.3

Source: Company, Religare Research

Cash flow statement

(Rs mn)	FY06	FY07	FY08E	FY09E
Net income	554.5	1,781.1	2,500.0	2,805.0
Depreciation	530.7	443.3	600.0	700.0
Other adjustments	321.7	(4.0)	(0.2)	0.6
Changes in WC	(1,016.2)	548.9	(325.1)	1,230.0
Operating cash flow	390.6	2,769.3	2,774.7	4,735.6
Capital expenditure	(1,788.7)	(1,537.7)	(3,533.8)	(2,500.0)
Investments	1,715.0	(580.0)	0.0	(500.0)
Other investing inc/(exp)	-	-	-	-
Investing cash flow	(73.7)	(2,117.7)	(3,533.8)	(3,000.0)
Free cash flow	316.9	651.6	(759.1)	1,735.6
Issue of equity	(363.1)	421.5	359.9	0.0
Issue/repay debt	(58.5)	379.5	(636.5)	(510.0)
Dividends paid	-	(66.8)	(143.2)	(214.7)
Others	-	-	-	-
Financing cash flow	(421.6)	734.3	(419.7)	(724.7)
Beg. cash & cash eq	225.6	120.9	1,506.8	328.0
Chg in cash & cash eq	(104.7)	1,385.9	(1,178.8)	1,010.9
Closing cash & cash eq	120.9	1,506.8	328.0	1,338.8

Source: Company, Religare Research

Balance sheet

(Rs mn)	FY06	FY07	FY08E	FY09E
Cash and cash eq	120.9	1,506.8	328.0	1,338.8
Accounts receivable	209.9	177.6	215.0	330.0
Inventories	366.4	558.2	775.0	900.0
Others current assets	1,242.9	1,161.7	1,500.0	300.0
Current assets	1,940.1	3,404.3	2,818.0	2,868.8
LT investments	1.1	581.1	581.1	1,081.1
Net fixed assets	6,373.9	7,455.1	7,355.1	12,455.1
CWIP	878.9	766.2	3,800.0	500.0
Total assets	9,194.0	12,206.7	14,554.2	16,905.0
Payables	248.6	458.8	620.0	830.0
Others	276.8	693.8	800.0	860.0
Current liabilities	525.4	1,152.6	1,420.0	1,690.0
LT debt	6,916.9	7,296.5	6,660.0	6,150.0
Other liabilities(Deff.Tax)	(380.4)	(380.4)	(380.4)	(380.4)
Equity capital	497.7	610.9	611.8	611.8
Reserves	1,634.4	3,527.2	6,242.8	8,833.6
Net worth	2,132.1	4,138.0	6,854.6	9,445.4
Total liabilities	9,194.0	12,206.7	14,554.2	16,905.0
BVPS (Rs)	42.9	72.5	112.0	154.4

Source: Company, Religare Research

Financial ratios

	FY06	FY07	FY08E	FY09E
EBITDA margin (%)	20.8	30.3	33.6	35.4
EBIT margin (%)	11.6	25.1	28.3	29.6
Net profit margin (%)	9.5	21.1	22.1	23.1
FDEPS growth (%)	126.5	180.0	30.9	12.2
Receivables (days)	13.2	7.7	6.9	9.9
Inventory (days)	23	24	25	27
Payables (days)	16	20	20	25
Current ratio (x)	3.7	3.0	2.0	1.7
Interest coverage (x)	3.5	5.9	10.7	10.3
Debt/equity ratio (x)	3.8	1.3	1.0	0.5
ROE (%)	36.4	62.2	47.3	35.3
ROCE (%)	8.9	22.1	27.8	27.0
ROAE (%)	13.9	24.4	30.3	30.4
EV/Sales (x)	2.6	1.8	1.4	1.3
EV/EBITDA (x)	12.7	6.0	4.0	3.6
P/E (x)	15.9	5.7	4.3	3.9
P/BV (x)	4.1	2.5	1.3	0.7
P/CEPS (x)	8.1	4.7	3.0	1.9

Source: Company, Religare Research

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Recommendation parameters

Large-caps*	> 10%	< - 5%	Returns	Absolute
	BUY	SELL		
Mid-caps**	> 25%	< 10%		

**Market cap over US\$ 1bn **Market cap less than US\$ 1bn*

Religare Securities

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