

JK Lakshmi Cement Ltd.

Rating : BUY

Target Price : ₹77

Upside : 28%

CMP : ₹ 60 (as on 16/11/2010)

Key Share Data

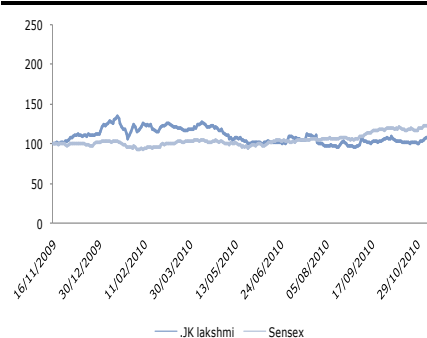
NSE Symbol	JKLAKSHMI
BSE Code/Group	500380 / B
Bloomberg Code	JKLC IN
Reuters Code	JKLC.BO
Equity Cap. (₹ Cr)	61.19
Face value	₹5
Market Cap. (₹ Cr)	723
52W H/L (SENSEX)	84.85 / 51.15
Avg. Daily Volume (6 months)	98165

Share Holding Pattern

Promoter	44.19%
FII	4.77%
DII	14.63%
Public & Others	36.41%

Stock Returns in (%) as on 27th September 2010

	1Mth	3Mth	6Mth
JK LAKSHMI	-5.90	-0.17	-10.60
SENSEX	-5.10	-1.29	10.05


Research Analyst

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Key Highlights:

- ⇒ Net sales has declined by 23% YoY to ₹266 Cr as the sales volume declined by 6.2% YoY to 0.95 MTPA and realisation declined by 17.9% YoY to ₹2522 per tonne. Net sales declined 17.8% QoQ on a 7.4% QoQ decline in sales volume and 11.2% decline in realisation.
- ⇒ The EBITDA margin declined by 2260bps YoY to 10.4% backed by 17.9% YoY decline in realization and 3.1% YoY hike in total expenditure. On QoQ basis, the margin has declined by 700bps.
- ⇒ The reported net profit has declined by 87.8% YoY to ₹ 5.8 Cr on account of Lower sales volumes, lower realisations & high power & fuel cost. The other income has increased by 157.3% YoY to Rs 6.15 Cr and interest cost has increased by 109.9% YoY to ₹11.25 Cr. However depreciation cost has reduced by 9.4% to ₹18.57 Cr.

Financials

(Rs Cr)	Q2FY11	Q2FY10	YOY %	Q1FY11	QoQ %
Net Sales	266.0	345.2	-23.0%	323.6	-17.8%
Expenditure	238.3	231.1	3.1%	267.3	-10.9%
EBITDA	27.7	114.1	-75.8%	56.3	-50.9%
Depreciation	18.6	20.5		21.7	
EBIT	9.1	93.6	-90.3%	34.6	-73.7%
Other income	6.2	2.6		1.9	
Interest	11.3	5.4		12.0	
PBT	4.0	90.8		24.4	
Tax	-1.7	43.6		7.6	
Adj PAT	5.8	47.2	-87.8%	16.8	-65.7%
Extraordinary items	0.0	0.0		0.0	
Reported PAT	5.8	47.2	-87.8%	16.8	-65.7%
EBITDA Margin	10.4%	33.0%		17.4%	
Net Profit Margin	2.2%	13.7%		5.2%	
Equity	61.2	61.2		61.2	
EPS (ann)	1.9	15.4		5.5	

Capex

The company is further increasing its cement capacity by 68% to 8 MTPA in FY13, by setting up a new cement plant of 2.7 MTPA capacity at Durg in the state of Chattisgarh with an investment of over ₹1200 Cr, which is expected to be completed by April 2013. The management has indicated that capacity expansion will be funded through a mix of debt (65%) and internal accruals (35%). The Durg region has adequate limestone reserves and the new unit will allow the company to tap the Central and Eastern markets of the country. Currently, the company is in the process of acquiring land for the project and has already acquired 60% of the required land.

Valuation

The cement sector has underperformed the broader market over the past 5-6 months on the concerns related to a weak pricing environment, oversupply, weak pricing environment and muted demand. We believe these negatives are now largely factored into stock prices, so we are positive on cement sector as a whole on a long term basis.

JK lakshmi Cement is trading at EV/tonne of \$70/tonne whereas current replacement cost is around \$110/tonne (a 40% discount to its replacement cost); It is also trading at a significant discount to other large-cap and midcap cement companies.

We have assigned EV/EBITDA multiples of 4.3 to the FY12E numbers which results 18 months forward target price of ₹77, implying 28% upside from the current market price. As per this valuation, the company is trading at 6.43x and 3.70x FY11E and FY12E earnings respectively which is quite attractive from investment point of view. Thus, we are maintaining our 'Buy' rating on the stock with an unchanged price target of ₹77.

Financials

Income Statement (Rs Cr)

	2009	2010	2011E	2012E	2013E
Revenues	1224.53	1490.50	1404.12	1699.81	1850.43
Growth %	10.55	21.72	-5.80	21.06	8.86
COGS	588.47	648.31	723.77	811.69	886.68
Gross Profit	636.06	842.19	680.35	888.12	963.75
Growth %	-1.35	32.41	-19.22	30.54	8.52
SG&A Expenses	319.43	420.50	384.81	443.72	475.95
Stock Adjustment	6.07	-2.92	0.00	0.00	0.00
Core EBITDA	310.56	424.61	295.55	444.40	487.80
Growth %	-11.59	36.72	-30.40	50.37	9.77
Other Income	34.74	41.27	22.43	34.43	52.43
EBITDA	345.30	465.88	317.98	478.83	540.23
Depreciation	69.11	80.03	98.57	117.78	141.43
EBIT	276.19	385.85	219.40	361.05	398.80
Growth %	-15.16	39.70	-43.14	64.56	10.46
Interest Exp	49.51	54.98	72.88	95.38	117.74
EBT	252.25	354.41	170.52	291.67	309.06
Tax	73.66	113.28	56.27	93.33	98.90
Net Earnings	178.59	241.13	114.25	198.34	210.16
Growth %	-20.15	35.02	-52.62	73.60	5.96

Balance Sheet (Rs Cr)

	2009	2010	2011E	2012E	2013E
Cash and Equi.	326.67	220.39	162.64	301.10	350.34
Receivables	23.32	28.98	28.08	33.15	36.55
Inventories	66.02	74.77	86.85	97.40	97.53
Loans and Advances	215.94	341.47	336.99	416.45	462.61
Investments	88.91	480.53	480.53	480.53	480.53
Gross Fixed Assets	1760.48	1903.64	2203.64	2603.64	3053.64
Net Fixed Assets	1013.09	1062.99	1264.42	1546.64	1855.20
Other Assets	97.04	181.95	181.95	181.95	181.95
Application of Funds	1830.99	2391.08	2541.46	3057.22	3464.72
Accounts Payable	64.53	58.98	65.14	73.05	70.93
Advances from Clients	0.00	0.00	0.00	0.00	1.00
Other Current Liabilities	106.80	161.21	162.44	182.44	202.44
Provisions	90.64	136.36	125.60	135.23	134.58
Deferred Tax Liabilities	35.10	92.10	92.10	92.10	92.10
Loan Funds	702.67	921.73	971.73	1271.73	1471.73
Reserves and Surplus	770.06	959.51	1063.27	1241.52	1432.24
Equity Capital	61.19	61.19	61.19	61.19	61.19
Sources of Funds	1830.99	2391.08	2541.46	3057.22	3464.72

Cash Flow Statement (Rs Cr)

	2009	2010	2011E	2012E	2013E
EBT	252.25	354.41	170.52	291.67	309.06
Depreciation	69.11	80.03	98.57	117.78	141.43
Interest paid	49.51	54.98	72.88	95.38	117.74
Changes in WIC	-25.26	-9.83	10.07	57.54	32.45
Tax Paid	25.90	59.06	56.27	93.33	98.90
others	-46.44	-4.79	0.00	0.00	0.00
Cashflow from Operations	416.67	444.98	275.63	353.95	436.89
Capital Expenditure	-224.59	-230.73	-299.79	-399.78	-450.21
Investments	-74.90	-385.15	0.00	0.00	0.00
Cashflow from Investments	-299.49	-615.88	-299.79	-399.78	-450.21
Proceeds from Borrowings	0.00	0.00	0.00	0.00	0.00
Increase/Decrease in Debt	-5.17	219.54	50.00	300.00	200.00
Interest/Dividends paid	-60.25	-97.92	-83.59	-115.72	-137.43
Others	-47.10	-57.00	0.00	0.00	0.00
Cashflow from Financing	-112.52	64.62	-33.59	184.28	62.57
Net Change in Cash	4.66	-106.28	-57.75	138.46	49.24

Financial Ratios

	2009	2010E	2011E	2012E	2013E
Profitability					
Core EBITDA margins	25.36	28.49	21.05	26.14	26.36
Net Profit Margins	14.58	16.18	8.14	11.67	11.36
Return					
ROE	24.24	26.04	10.65	16.34	15.03
ROCE	18.92	21.41	10.39	14.87	13.93
Liquidity and Gearing					
Cash Conversion Cycle	5.67	8.52	12.29	11.52	11.90
Current Ratio	3.69	3.02	2.70	3.32	3.46
Debt/Equity	0.85	0.90	0.86	0.98	0.99
Interest Cover	5.58	7.02	3.01	3.79	3.39
Per Share					
EPS	14.59	19.70	9.34	16.21	17.17
Operating Cashflow/PS	34.05	36.36	22.52	28.92	35.70
BVPS	67.92	83.40	91.88	106.45	122.03
Valuation					
EV/EBITDA	3.58	3.38	5.22	3.84	3.80
Price/Earning	4.11	3.05	6.43	3.70	3.49
Price/BV	0.88	0.72	0.65	0.56	0.49
EV/Tonne	49.74	64.31	69.14	68.45	74.50

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RATING SCALE:

BUY - the stock is available at cheap valuation and has an upside of more than 25% and should be bought at the prevailing price.

ACCUMULATE - the stock is fundamentally sound, however may/may not be available at cheap valuation. The upside is between 10%-25% and the stock can be bought on dips.

HOLD - the stock is nearing its fair value and should be approached with caution. The upside value for this stock is under 5%-10%

REDUCE - the stock is relatively expensive and/or has achieved its fundamental value and the upside is limited to under 5%. Profits must be taken on every rise, if any position made.

EXIT - the stock has no more room for upside, and valuations are stretched. The company is overvalued and hence one must "sell" the stock and exit from the counter as there is a possibility of a correction of more than 10%.