

JK Lakshmi Cement

Performance Highlights

Y/E March (₹ cr)	3QFY2011	2QFY2011	% chg qoq	3QFY2010	% chg yoy
Net revenue	315	266	18.6	353	(10.7)
Operating profit	25	28	(10.4)	89	(72.1)
OPM (%)	7.9	10.4	(254)bp	25.2	(1,732)bp
Net profit	5	6	(20.1)	46	(90.1)

Source: Company, Angel Research

For 3QFY2011, JK Lakshmi Cement (JKLC) posted a substantial 1,732bp yoy decline in operating margin to 7.9% due to the fall in realisations and a steep 66% yoy increase in per tonne power and fuel costs. Going ahead, we expect JKLC to face relatively less pricing pressures owing to pick-up in demand in the northern region. JKLC is currently trading at US \$32/tonne based on FY2012E capacity, which is lower than its peers and well below its replacement cost. **Hence, we maintain a Buy on the stock.**

PAT declines 87.8% yoy on lower realisations, higher power cost:

JKLC posted 10.7% yoy decline in top-line to ₹315cr (₹353cr) primarily on account of the substantial fall in realisations on a yoy basis. However, qoq top-line grew by 18.6%. OPM for the quarter plunged by a substantial 1,732bp yoy to 7.9% (25%) on account of the fall in realisations and significant increase in the power and fuel costs. Thus, bottom-line came in at ₹4.6cr (₹46cr), down 90.1% yoy. The decline in bottom-line was however, restricted by the lower tax expense due to write-backs.

Outlook and valuation: We expect JKLC to post a modest 2.3% CAGR in top-line over FY2010-12, aided by a 6% CAGR in dispatches over the period. Going ahead, we expect realisations to improve on the back of better demand from the housing and real estate sectors. JKLC is currently trading at US \$32/tonne on FY2012E capacity, 57% below its replacement cost. We have valued JKLC at EV/tonne of US \$50 to arrive at a fair value of ₹80, which is still at a discount to its replacement cost. We maintain a Buy on the stock, with a revised Target Price of ₹80 (₹92).

Key Financials

Y/E March (₹ cr)	FY2009	FY2010	FY2011E	FY2012E
Net sales	1,225	1,491	1,409	1,561
% chg	10.6	21.7	(5.5)	10.7
Net profit	179	241	45	47
% chg	(20.2)	35.0	(81.5)	6.1
FDEPS (₹)	29.2	19.7	3.7	3.9
OPM (%)	25.4	28.5	13.0	13.9
P/E (x)	3.3	2.4	13.2	12.4
P/BV (x)	0.8	0.6	0.5	0.5
RoE (%)	24.2	26.0	4.1	4.1
RoCE (%)	16.6	19.1	4.6	5.0
EV/Sales (x)	0.7	0.4	0.6	0.5
EV/Tonne (US \$)	39	29	33	32
Installed cap. (mtpa)	5	5.4	5.4	5.4
EV/EBITDA (x)	2.8	1.5	4.3	3.5

Source: Company, Angel Research

BUY

CMP	₹48
Target Price	₹80

Investment Period	12 Months
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Stock Info

Sector	Cement
Market Cap (₹ cr)	590
Beta	0.5
52 Week High / Low	81/48
Avg. Daily Volume	90074
Face Value (₹)	5
BSE Sensex	18,396
Nifty	5,512
Reuters Code	JKLC.BO
Bloomberg Code	JKLC@IN

Shareholding Pattern (%)

Promoters	44.2
MF / Banks / Indian Fls	23.4
FII / NRIs / OCBs	7.9
Indian Public / Others	24.5

Abs. (%)	3m	1yr	3yr
Sensex	(7.7)	12.8	1.3
JK Lakshmi	(22.5)	(26.6)	(28.5)

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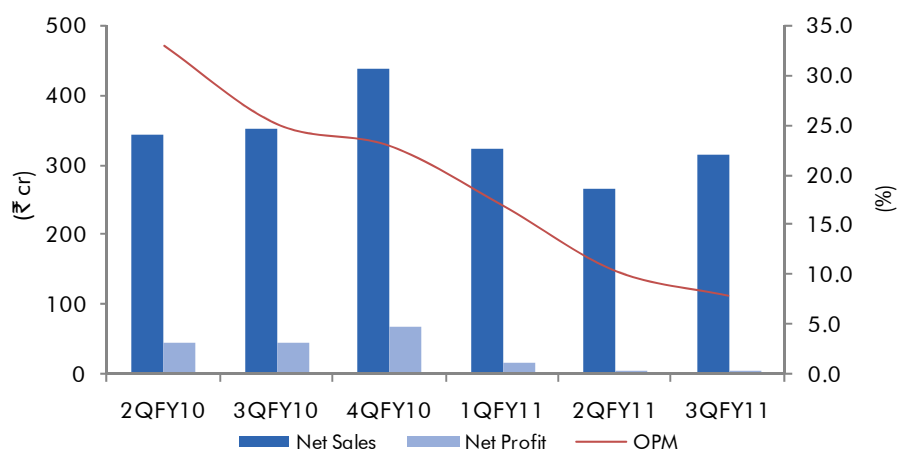
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Exhibit 1: 3QFY2011 performance

Y/E March (₹ cr)	3QFY2011	2QFY2011	% chg (qoq)	3QFY2010	% chg (yoy)	9MFY2011	9MFY2010	% chg
Net sales	315	266	18.6	353	(10.7)	905	1,050	(13.8)
Net raw-material costs	48	31	53.5	48	(0.5)	128	141	(9.2)
(% of sales)	15	12		14		14	13	
Power & fuel	105	95	9.9	77	35.6	288	21	1,258.1
(% of sales)	33	36		22		32	2	
Staff costs	17	18	(7.8)	19	(12.1)	56	58	(3.4)
(% of sales)	5	7		5		6	6	
Freight & forwarding	68	57	18.9	69	(1.7)	187	184	1.8
(% of sales)	21	21		19		21	18	
Other expenses	53	36	46.0	51	4.8	136	134	2.0
(% of sales)	17	14		14		15	13	
Total expenditure	291	238	21.9	264	9.9	796	538	48.0
Operating profit	25	28	(10.4)	89	(72.1)	109	512	(78.7)
OPM	7.9	10	(254.1)	25	(1,732)	12	49	
Interest	13	11	12.3	5	158.8	36	12	190.5
Depreciation	21	19	14.4	18	19.7	62	59	4.7
Other income	9	6	50.7	2	287.9	17	7	132.6
PBT (incl. extr. items)	0	4	(94.1)	69	(99.7)	29	259	(88.9)
Provision for taxation	(4)	(2)		22		2	88	(98)
(% of PBT)	-	-		33		5	34	
Reported PAT	5	6	(20.1)	46	(90.1)	27	171	(84.1)
PATM	1	2		13		3	16	
Equity capital	61	61		61		61	61	
EPS (₹)	0.4	0.5		4		2.2	14.0	

Source: Company, Angel Research

Exhibit 2: Financial performance


Source: Company, Angel Research

Exhibit 3: 3QFY2011– Actual v/s Angel estimates

(₹ cr)	Actual	Estimates	Variation (%)
Net sales	315	322	(2.0)
Operating profit	25	47	(46.8)
Net profit	5	16	(71.2)

Source: Company, Angel Research

Operational highlights

In 3QFY2011, JKLC's per tonne cement realisations declined by 3.5% yoy to ₹3,186. Dispatches during the quarter also fell by 7.5% yoy to 0.99mn tonnes, as demand failed to pick up in the company's primary markets in the northern and western regions. The low demand in the regions was due to the poor off-take from the real estate and infrastructure sectors. The company's per tonne power and fuel costs increased by 66.4% yoy to ₹1,059 during the quarter. Per tonne freight cost also increased by 23.4% yoy to ₹683. Operating profit per tonne stood at ₹251 during the quarter, down 76.5% yoy.

Exhibit 4: Per tonne analysis

(₹)	3QFY11	2QFY11	3QFY10	% chg (yoy)	% chg (qoq)
Realisation/tonne	3,186	3,244	3,302	(3.5)	(1.8)
Raw-material cost/tonne	486	382	521	(6.7)	27.1
Power & fuel cost/tonne	1,059	1,164	637	66.4	(8.9)
Freight costs/tonne	683	694	554	23.4	(1.5)
Operating profit/tonne	251	338	1,068	(76.5)	(25.7)
Depreciation/tonne	215	226	192	12.0	(5.2)
Net profit/tonne	46	70	441	(89.5)	(33.9)

Source: Company, Angel Research

Investment arguments

Activity concentration in the northern region to protect margins: JKLC derives more than 50% of its revenue from the northern region. Although, this region is currently facing low demand, the long-term demand outlook for the northern region is good due to huge infrastructure and real estate projects that are likely to come up in the region. Further, the region is not expected to witness major capacity addition over the next two years. Thus, we expect players in the region to regain pricing power, with the improvement in demand situation. Hence, we expect JKLC to gain out of the positive demand-supply dynamics in the region.

Rising captive power usage to improve profitability: JKLC is planning to increase its total captive power capacity to 87MW from 36MW by FY2012E, which will be sufficient to meet nearly 90% of its power requirement on the expanded capacity of 8.1mtpa, thus improving its profitability substantially. Moreover, JKLC has tied up with VS Lignite, a KSK Group company, for the purchase of 21MW power every year for the next 20 years at a price of ₹3.2/unit, which is close to the company's captive power cost.

Strong balance sheet: JKLC's debt currently stands at ~ ₹1,050cr, of which ~₹100cr is on account of deferred sales tax (interest free). The company's cash and liquid investments stand at ~₹560cr. Thus, JKLC's balance sheet is well placed, with net debt/equity of 0.35x, which would enable smooth execution of its expansion plans. The company is currently setting up a 2.7mtpa green-field plant at Chattisgarh, which is expected to be operational by FY2013.

Outlook and valuation

We expect JKLC to post a modest 2.3% CAGR in top-line over FY2010-12, aided by a 6% CAGR in dispatches over the period. Going ahead, we expect realisations to improve on the back of better demand from the housing and real estate sectors. JKLC is currently trading at US \$32/tonne on FY2012E capacity, 50% below its replacement cost. Even on relative terms, the company is trading at a huge ~57% discount v/s the other mid-cap players. We have valued JKLC at an EV/tonne of US \$50 on FY2012 estimates to arrive at a fair value of ₹80, implying 53% upside from current levels and it is still at a discount to its replacement cost. **Hence, we maintain a Buy on the stock, with a revised Target Price of ₹80 (₹92).**

Exhibit 5: Target Price valuation on FY2012 estimates

(₹ cr)	
EV @ Target EV/tonne of US \$50	1,307
Captive power plant (87MW)	348
Market cap	972
No. of shares (cr)	12.2
Target price (₹)	80

Source: Angel Research

Exhibit 6: Change in estimates

Parameter (₹ cr)	FY2011			FY2012		
	Earlier	Revised	Var.(%)	Earlier	Revised	Var.(%)
Net sales	1,409	1,409	-	1,561	1,561	-
Op. expenses	1,153	1,226	6.3	1,253	1,343	7.2
Op. profit	256	184	(28.1)	308	217	(29.5)
Depreciation	95	84	(11.6)	108	96	(11.1)
Interest	57	46	(18.6)	61	65	7.1
PBT	114	62	(45.6)	148	66	(55.4)
Tax	32	17	(46.9)	42	18	(57.1)
PAT	82	45	(45.1)	107	47	(56.1)

Source: Angel Research

Exhibit 7: Key assumptions

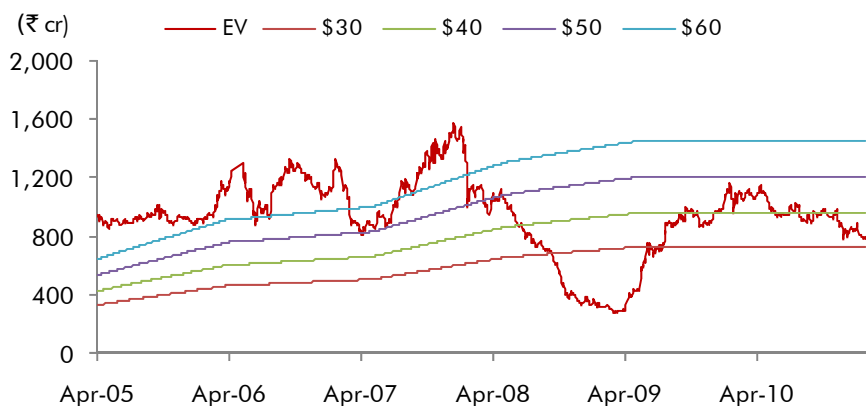
	Earlier estimates		Revised estimates	
	FY11E	FY12E	FY11E	FY12E
Installed capacity (mtpa)	5.4	5.4	5.4	5.4
Growth (%)	0	0	0	0
Utilisation (%)	89	99	89	99
Despatches (mt)	4.8	5.2	4.8	5.2
Raw-material costs/tonne (₹)	516	552	564	597
Power cost/tonne (₹)	752	724	817	802

Source: Company, Angel Research

Exhibit 8: Recommendation summary

Company	Reco.	CMP (₹)	Tgt. Price (₹)	Upside (%)	FY2012E P/BV (x)	FY2012E P/E (x)	FY2010-12E EPS CAGR (%)	FY2012E RoCE (%)	FY2012E RoE (%)
ACC*	Neutral	995			2.5	19.5	(22.5)	16.1	13.4
Ambuja Cements*	Neutral	128			2.5	19.7	(9.9)	16.7	13.3
Grasim	Neutral	2,302	2,521	9.5	1.3	9.2	(10.9)	14.6	13.5
India Cem	Buy	99	139	41.1	0.8	24.6	(41.0)	4.3	2.8
JKLC	Buy	48	80	66.0	0.5	12.4	(55.5)	5.0	4.1
Kesoram	Buy	213	389	83.0	0.6	11.4	(40.1)	6.2	5.4
Madras Cem	Buy	92	141	53.3	1.2	10.8	(24.5)	8.9	11.4
UltraTech	Neutral	997			1.9	20.5	(25.5)	11.9	10.1

Source: Company, Angel Research; Note: December year ending

Exhibit 9: One-year forward EV/tonne


Source: Company, Angel Research; Note: Valuation in US \$/tonne

Profit and loss statement

Y/E March (₹ cr)	FY2007	FY2008	FY2009	FY2010	FY2011E	FY2012E
Total operating income	844	1,108	1,225	1,491	1,409	1,561
% chg	44.9	31.3	10.6	21.7	(5.5)	10.7
Total expenditure	588	756	914	1,066	1,226	1,343
Net raw material	81	123	170	234	268	308
Other mfg. costs	219	246	306	290	392	426
Personnel	35	56	69	85	90	98
Other	253	331	369	457	475	511
EBITDA	256	351	311	425	184	217
% chg	111.8	37.2	(11.6)	36.7	(56.8)	18.4
(% of net sales)	30.3	31.7	25.4	28.5	13.0	13.9
Depreciation & amortisation	44	59	69	80	84	96
EBIT	212	293	241	345	99	121
% chg	212.1	38.3	(17.5)	42.7	(71.1)	21.9
(% of net sales)	25	26	20	23	7	8
Interest & other charges	36	28	21	23	46	65
Other income	3	7	6	9	8	9
(% of PBT)	2	3	3	3	14	14
Recurring PBT	179	272	227	331	62	66
% chg	217.9	51.9	(16.5)	46.0	(81.2)	6.1
Extraordinary expense/(Inc.)	-	21.0	-	-	-	-
PBT (reported)	179	251	227	331	62	66
Tax	1	27	48	90	17	18
(% of PBT)	0.4	10.7	21.2	27.1	28.0	28.0
PAT (reported)	178	224	179	241	45	47
ADJ. PAT	178	245	179	241	45	47
% chg	221.2	37.4	(27.0)	35.0	(81.5)	6.1
(% of net sales)	21.1	22.1	14.6	16.2	3.2	3.0
Basic EPS (₹)	16	18	15	20	4	4
Fully diluted EPS (₹)	16	18	15	20	4	4
% chg	180.1	17.2	(20.2)	35.0	(81.5)	6.1

Balance sheet

Y/E March (₹ cr)	FY2007	FY2008	FY2009	FY2010	FY2011E	FY2012E
SOURCES OF FUNDS						
Equity Share Capital	57	61	61	61	61	61
Preference Capital						
Reserves & Surplus	353	581	770	960	1,080	1,106
Shareholders' Funds	410	642	831	1,021	1,141	1,167
Total Loans	730	708	703	922	1,072	1,272
Deferred Tax Liability	(38)	(12)	35	92	92	92
Total Liabilities	1,101	1,338	1,569	2,035	2,305	2,531
APPLICATION OF FUNDS						
Gross Block	1,341	1,474	1,760	1,904	2,104	2,404
Less: Acc. Depreciation	595	663	747	841	925	1,021
Net Block	746	811	1,013	1,063	1,179	1,383
Capital Work-in-Progress	77	101	97	182	482	582
Goodwill	-	-	-	-	-	-
Investments	58	13	89	481	481	481
Current Assets	338	590	632	666	547	494
Cash	147	348	327	220	85	19
Loans & Advances	118	162	216	341	341	341
Other	74	81	89	104	120	133
Current liabilities	117	177	262	357	383	408
Net Current Assets	221	413	370	309	164	86
Mis. Exp. not written off	-	-	-	-	-	-
Total Assets	1,101	1,338	1,569	2,035	2,305	2,531

Cash flow statement

Y/E March (₹ cr)	FY2007	FY2008	FY2009	FY2010	FY2011E	FY2012E
Profit before tax	179	251	227	331	62	66
Depreciation	44	59	69	80	84	96
Change in working Capital	129	99	144	18	153	77
Less: Other income	3	7	6	9	8	9
Direct taxes paid	1	27	48	90	17	18
Cash flow from operations	348	375	386	330	273	211
(Inc)/ Dec in fixed Assets	(154)	(158)	(282)	(228)	(500)	(400)
(Inc)/ Dec in investments	(58)	45	(76)	(392)	-	-
Other income	3	7	6	9	8	9
Cash flow from investing	(208)	(106)	(352)	(610)	(492)	(391)
Issue of equity						
Inc./(Dec.) in loans	38	(22)	(5)	219	150	200
Dividend paid (Incl. Tax)	7	18	29	21	21	21
others	36	28	21	23	46	65
Cash flow from financing	(5)	(68)	(55)	175	83	114
Inc./(Dec.) in cash	135	201	(21)	(106)	(136)	(66)
Opening cash balances	12	147	348	327	220	85
Closing cash balances	147	348	327	220	85	19

Key Ratios

Y/E March	FY2007	FY2008	FY2009	FY2010	FY2011E	FY2012E
Valuation ratio (x)						
P/E (on FDEPS)	3.8	3.3	4.1	3.0	13.2	12.4
P/CEPS	3.1	2.6	3.0	2.3	4.6	4.1
P/BV	1.8	1.2	0.9	0.8	0.5	0.5
Dividend yield (%)	1.0	2.4	3.9	2.9	3.6	3.6
EV/Sales	1.4	0.9	0.9	0.5	0.6	0.5
EV/EBITDA	4.7	2.8	3.6	1.8	4.3	3.5
EV / Total Assets	1.1	0.7	0.7	0.4	0.3	0.3
Per share data (₹)						
EPS (Basic)	15.6	18.3	14.6	19.7	3.7	3.9
EPS (fully diluted)	15.6	18.3	14.6	19.7	3.7	3.9
Cash EPS	19.5	23.1	20.2	26.2	10.5	11.7
DPS	0.6	1.5	2.3	1.8	1.8	1.8
Book Value	34.1	51.9	64.1	79.6	89.4	91.6
DuPont analysis (%)						
EBIT margin	25.1	26.4	19.7	23.1	7.1	7.8
Tax retention ratio	99.6	89.3	78.8	72.9	72.0	72.0
Asset turnover (x)	0.9	1.1	1.1	1.2	0.9	0.8
ROIC (Post-tax)	23.3	27.0	17.1	19.6	4.7	4.6
Cost of debt (Post Tax)	5.1	3.5	2.3	2.1	3.3	4.0
Leverage (x)	2.3	1.0	0.5	0.3	0.4	0.6
Operating ROE	65.3	50.1	24.5	25.3	5.2	5.0
Returns (%)						
ROCE (Pre-tax)	21.5	24.0	16.6	19.1	4.6	5.0
Angel ROIC (Pre-tax)	25.7	33.3	23.9	30.1	8.3	9.0
ROE	57.2	46.5	24.2	26.0	4.1	4.1
Turnover ratios (x)						
Asset turnover (Gross Block)	0.7	0.8	0.8	0.8	0.7	0.7
Inventory / Sales (days)	20	19	19	17	22	23
Receivables (days)	8	6	6	6	7	7
Payables (days)	53	71	88	106	110	107
WC cycle (ex-cash) (days)	44	23	16	16	22	17
Solvency ratios (x)						
Net debt to equity	1.4	0.5	0.4	0.2	0.4	0.7
Net debt to EBITDA	2.3	1.0	1.2	0.5	2.8	3.5
Interest coverage (EBIT/ Int.)	5.9	10.5	11.5	15.0	2.2	1.9

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Disclosure of Interest Statement	JK Lakshmi Cement
1. Analyst ownership of the stock	No
2. Angel and its Group companies ownership of the stock	No
3. Angel and its Group companies' Directors ownership of the stock	No
4. Broking relationship with company covered	No

Note: We have not considered any Exposure below ₹ 1 lakh for Angel, its Group companies and Directors

Ratings (Returns):	Buy (> 15%) Reduce (-5% to 15%)	Accumulate (5% to 15%) Sell (< -15%)	Neutral (-5 to 5%)
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