

JK Lakshmi Cement

Performance Highlights

Quarterly results (Standalone)

Y/E March (₹ cr)	1QFY2013	4QFY2012	% chg qoq	1QFY2012	% chg yoy
Net revenue	533	527	1.2	397	34.3
Operating profit	122	113	7.2	79	53.7
OPM (%)	22.8	21.5	127bp	19.9	288bp
Net profit	50	70	(27.7)	23	121.0

Source: Company, Angel Research

JK Lakshmi Cement (JKLC)'s net profit in Q1FY2013 grew by 121% yoy driven by a strong 23.3% yoy improvement in volumes due to healthy demand scenario in the company's key markets of Gujarat and north India. The volume growth was aided by additional volumes from the company's new split grinding capacity in Jhajjar, which was commissioned in April 2012. The realization too was higher by 9.6% yoy (up 3.6% qoq).

OPM at 22.8%, up 288bp yoy: During 1QFY2013, JKLC registered a robust top-line growth of 34.3% yoy to ₹533cr. Volumes stood at 1.39mn tonne. Realization grew by 9.6% yoy and stood at ₹3,851/tonne. The company posted a healthy 288bp yoy improvement in its OPM to 22.8% led by a better realization and reduction in power and fuel costs. The company's per tonne power consumption fell yoy during the quarter and stood at 76kwh (vs 78kwh in 1QFY2012). Per-tonne coal consumption too fell on a y-o-y basis and stood at 83kwh (86kwh in 1QFY2012). Thus, per-tonne power and fuel costs fell 12.3% on a y-o-y basis.

Outlook and valuation: Going forward, we expect JKLC to post a 15.4% CAGR in its top-line over FY2012-14. More than 79% of the company's capacities are located in Rajasthan, which is India's biggest cement cluster state-wise. Further, the company's stock price has run up considerably over the past few months and we believe there is limited upside potential from the current levels considering the locational disadvantage it faces. Hence **we recommend a Neutral rating on the stock.**

Key financials (Standalone)

Y/E March (₹ cr)	FY2011	FY2012	FY2013E	FY2014E
Net sales	1,319	1,711	1,964	2,278
% chg	(11.5)	29.7	14.8	16.0
Net profit	59	139	177	194
% chg	(75.5)	134.6	27.4	9.6
FDEPS (₹)	4.8	9.4	14.5	15.8
OPM (%)	13.9	16.5	19.5	20.4
P/E (x)	30.5	11.3	6.1	5.6
P/BV (x)	1.2	1.1	0.9	0.8
RoE (%)	3.9	9.8	14.7	14.6
RoCE (%)	4.7	6.6	10.8	10.6
EV/Sales (x)	1.3	0.9	0.7	1.0
EV/Tonne (US\$)	65	57	40	51
EV/EBITDA (x)	9.1	5.6	3.6	5.1

Source: Company, Angel Research

NEUTRAL

CMP	₹100
Target Price	-

Investment Period

Stock Info

Sector	Cement
Market Cap (₹ cr)	1,177
Net Debt (₹ cr)	527
Beta	0.9
52 Week High / Low	101/36
Avg. Daily Volume	59876
Face Value (₹)	5
BSE Sensex	17,601
Nifty	5,337
Reuters Code	JKLC.BO
Bloomberg Code	JKLC@IN

Shareholding Pattern (%)

Promoters	46.0
MF / Banks / Indian Fls	12.4
FII / NRIs / OCBs	6.0
Indian Public / Others	35.6

Abs. (%)	3m	1yr	3yr
Sensex	4.1	1.7	16.1
JKLC	58.3	134.4	55.3

V Srinivasan

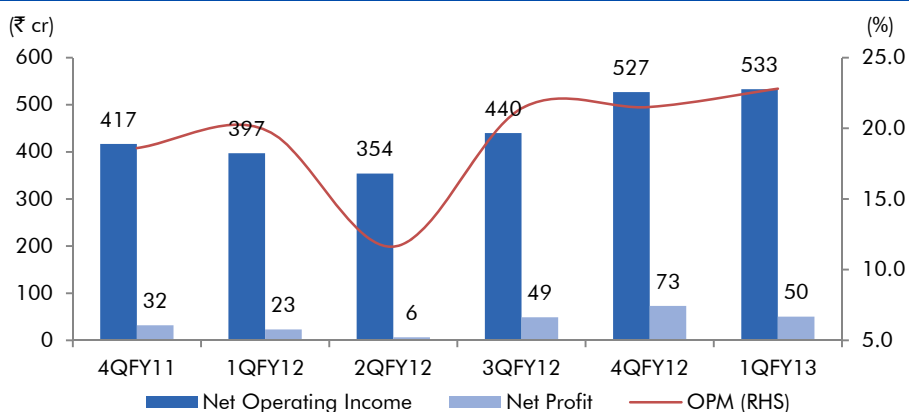
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Exhibit 1: Quarterly Performance

Y/E March (₹ cr)	1QFY2013	4QFY2012	% Chg	1QFY2012	% Chg	FY2012	FY2011	% Chg
Net sales	533	527	1.2	397	34.3	1,711	1,319	29.7
Net raw-material costs	113	136	(16.9)	67	68.1	368	256	43.4
(% of sales)	21.2	25.8		16.9		21.5	19.5	
Power & fuel	116	100	16.7	108	7.5	414	392	5.5
(% of sales)	21.8	19.0		27.3		24.2	29.8	
Staff costs	28	30	(7.8)	23	22.1	98	80	22.5
(% of sales)	5.2	5.7		5.7		5.8	6.1	
Freight & forwarding	104	93	11.7	79	31.1	331	264	25.7
(% of sales)	19.5	17.6		19.9		19.4	20.0	
Other expenses	51	54	(7.1)	40	24.9	179	139	28.6
(% of sales)	9.5	10.3		10.2		10.5	10.6	
Total Expenditure	412	413	(0.4)	318	29.5	1,390	1,131	22.9
Operating Profit	122	113	7.2	79	53.7	321	185	73.1
OPM	22.8	21.5	127bp	19.9	288bp	18.8	14.1	468
Interest	21	14	51.5	22	(6.2)	80	60	31.7
Depreciation	33	54	(39.1)	25	33.1	169	85	99.7
Other income	5	33	(86)	1.1	344.4	70	38	83.2
PBT (excl. Extr. Items)	73	79	(7.9)	34	117.2	143	79	81.2
Extr. Income/(Expense)	-	-		-		30	-	
PBT (incl. Extr. Items)	73	79	(7.9)	34	117.2	173	79	119.1
Provision for taxation	23	10		11		34	20	73
(% of PBT)	31.2	12.4				19.7	25.0	
Adjusted PAT	50.3	69.5	(27.7)	22.8	121.0	139	59	134.6
PATM	9.4	13.2		5.7		8.1	4.5	
EPS (₹)	4.1	5.7		1.9		11.3	4.8	

Source: Company, Angel Research

Exhibit 2: Financial performance


Source: Company, Angel Research

Exhibit 3: 1QFY2013 – Actual vs Angel estimates

(₹ cr)	Actual	Estimates	Variation (%)
Net Sales	533	482	10.6
Operating Profit	122	126	(3.8)
OPM (%)	22.8	26.2	(339)bp
Net Profit	50	68	(26.1)

Source: Company, Angel Research

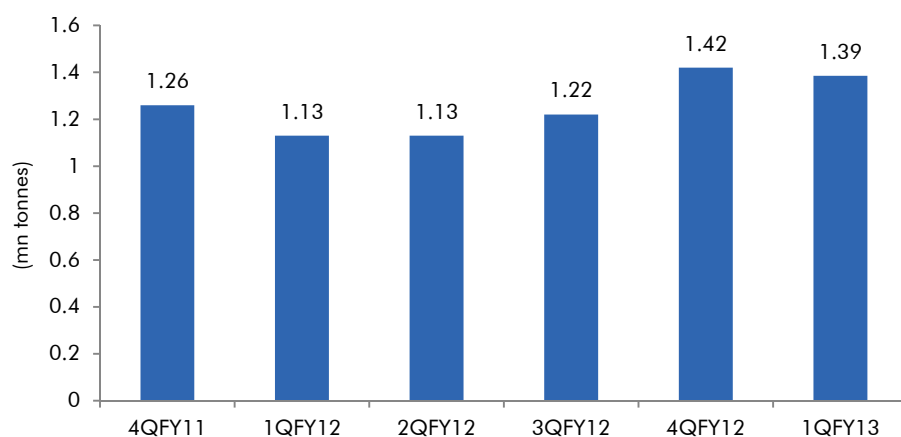
Performance highlights
Top-line up 34.3% yoy, driven by higher volumes

During 1QFY2013, JKLC registered a 34.3% yoy growth in its top-line to ₹533cr primarily on account of a 22.6% yoy improvement in volumes to 1.39mn tonne. The realization increased by 9.6% yoy (up 3.6% qoq) to ₹3,851/tonne. The company posted a healthy 288bp yoy improvement in its OPM to 22.8% lead by better realization and reduction in power and fuel costs. The company's power and fuel costs per tonne of cement fell 12.3% on a y-o-y basis. Power consumption per tonne of cement fell y-o-y and stood at 76kwh (vs 78kwh in 1QFY2012). The per-tonne coal consumption too fell on a y-o-y basis and stood at 83kwh (86kwh in 1QFY2012). However, the company indicated that cost the per-tonne of petcoke stood at ~₹6,950/tonne vs ₹6,587/tonne in 1QFY2012. The freight costs/tonne rose by 6.9% yoy to ₹750. For 1QFY2013, JKLC reported an operating profit per tonne of ₹878, up 25.4% on a y-o-y basis.

Exhibit 4: Per tonne analysis

(₹)	1QFY13	4QFY12	1QFY12	chg (%) yoy	chg (%) qoq
Realization/tonne	3,851	3,717	3,514	9.6	3.6
Raw-material cost/tonne	817	961	595	37.1	(15.0)
Power and fuel cost/tonne	841	705	959	(12.3)	19.3
Freight costs/tonne	750	656	701	6.9	14.2
Other costs/tonne	365	384	358	1.9	(5.0)
Operating profit/tonne	878	801	700	25.4	9.6

Source: Company, Angel Research

Exhibit 5: Volume performance


Source: Company, Angel Research

Conference call highlights

- JKLC's clinker capacity currently has risen to 4.13mtpa, from 3.96mtpa post the kiln expansion activities carried out by the company at the Rajasthan plant.
- During the quarter, the company commissioned a 0.55mtpa split grinding unit in Haryana. JKLC expects the 2.7mtpa Durg expansion with grinding units at three different locations to come on stream by 3QFY2014. The clinker capacity at Durg would be 1.5mtpa, along with a 0.9mtpa grinding facility. The company is yet to finalize locations for the other two proposed grinding units of 0.9mtpa each. These expansions, when complete, would take the company's cement capacity to 8mtpa. The company maintained that the planned cost of the Durg expansion would be ₹1,250cr. The company expects to add 3RMC plants each in FY2013 and FY2014 respectively.

Investment rationale

Rising captive power usage to improve profitability: JKLC has a power purchase tie-up with VS Lignite for 21MW power for the next 20 years at ₹3.2/unit (closer to its captive power cost) in addition to its current total captive power capacity of 66MW. Thus, effectively the company has access to 87MW of cheaper power, which is more than sufficient for its current capacity. Further, the company has increased the use of biomass in its overall usage, which is also expected to improve its profitability going ahead.

Unfavorable plant locations to affect profitability: JKLC has 79% of its total capacities in Rajasthan which, state-wise, is India's second biggest capacity cluster, with a total capacity of 44.8mtpa as of FY2011. Capacities in Rajasthan face a huge demand-supply gap even after catering to surplus demand of nearby supply-deficit states (Haryana, Punjab, NCR, Chandigarh and Uttar Pradesh).

Outlook and valuation

Going forward, we expect JKLC to post a 15.4% CAGR in its top-line over FY2012-14E. Further, its stock price has run up considerably over the past few months and we believe there is limited upside potential from the current levels, considering the locational disadvantage it faces. **Hence we recommend a Neutral rating on the stock.**

Exhibit 6: Change in estimates

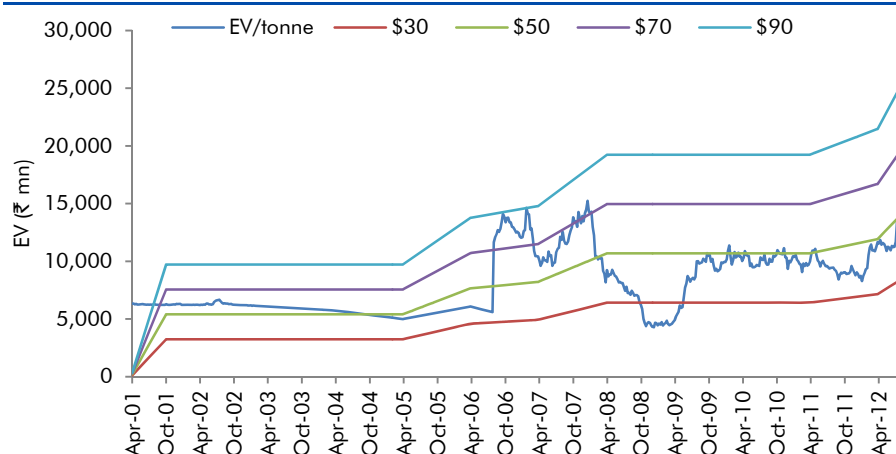
Parameter (₹ cr)	FY2013E			FY2014E		
	Earlier	Revised	Var. (%)	Earlier	Revised	Var. (%)
Net Sales	1,938	1,964	1.4	2,246	2,278	1.4
Operating Exp.	1,568	1,581	0.9	1,795	1,815	1.1
Operating Profit	370	383	3.4	451	464	2.8
Depreciation	98	97	(0.7)	145	144	(0.5)
Interest	40	42	3.7	43	44	1.1
PBT	219	235	7.2	239	254	6.1
Tax	54	58	7.2	57	60	6.1
PAT	165	177	7.2	182	194	6.1

Source: Angel Research

Exhibit 7: Recommendation summary

Company	Reco	CMP (₹)	Tgt. Price (₹)	Upside (%)	FY2014E P/BV (x)	FY2014E P/E (x)	FY2012-14E EPS CAGR	FY2014E RoE (%)	EV/tonne ^ US \$
ACC*	Neutral	1,335	-	-	3.0	16.4	7.3	19.0	129
Ambuja Cements*	Neutral	191	-	-	3.3	15.8	21.4	19.8	162
India Cements	Neutral	86	-	-	0.7	7.5	8.5	9.5	52
JK Lakshmi	Neutral	100	-	-	0.8	5.6	41.7	14.6	45
Madras Cement	Neutral	173	-	-	1.5	10.0	3.1	16.2	66
Shree Cements	Neutral	3,069	-	-	3.2	13.6	67.7	26.0	110
UltraTech Cements	Neutral	1,638	-	-	2.6	15.2	9.9	18.3	160

Source: Company, Angel Research; Note: *Y/E December; ^ Computed on TTM basis

Exhibit 8: One-year forward EV/Tonne band


Source: BSE, Company, Angel Research

Company Background

JK Lakshmi Cement (JKLC) is a mid-sized cement company with current total capacity of 4.75mtpa spread across Rajasthan (4.2mtpa) and Gujarat (0.5mtpa). The company is looking forward to increase its total capacity to 5.3mtpa by commissioning a 0.55mtpa split grinding unit at Jhajjar in Haryana by March 2012. The company also has plans to set up a 2.7mtpa green field plant at Durg in Chhattisgarh by March 2013, taking its total capacity to 8.0mtpa.

Profit and loss statement (Standalone)

Y/E March (₹ cr)	FY2009	FY2010	FY2011	FY2012	FY2013E	FY2014E
Total operating income	1,225	1,491	1,319	1,711	1,964	2,278
% chg	10.6	21.7	(11.5)	29.7	14.8	16.0
Total expenditure	914	1,066	1,136	1,429	1,581	1,815
Net raw material	182	234	204	368	378	422
Other mfg. costs	306	290	392	414	454	510
Personnel	69	85	81	98	106	117
Other	356	457	459	550	643	766
EBITDA	311	425	183	282	383	464
% chg	(11.6)	36.7	(56.9)	53.8	35.8	21.2
(% of net sales)	25.4	28.5	13.9	16.5	19.5	20.4
Depreciation & amortization	69	80	85	130	97	144
EBIT	241	345	99	152	285	319
% chg	(17.5)	42.7	(71.4)	54.1	87.6	12.0
(% of net sales)	19.7	23.1	7.5	8.9	14.5	14.0
Interest & other charges	50	55	60	80	92	110
Other income	34	35	21	70	42	44
(% of PBT)	14.9	10.5	26.8	40.8	17.8	17.3
Recurring PBT	226	324	60	143	235	254
% chg	(16.9)	43.7	(81.6)	138.7	64.3	8.1
Extraordinary expense/(Inc.)	(1)	(6)	(19)	(30)	-	-
PBT (reported)	227	331	79	173	235	254
Tax	48	90	20	34	58	60
(% of PBT)	21.2	27.1	25.0	19.7	24.7	23.7
PAT (reported)	179	241	59	139	177	194
ADJ. PAT	178	235	40	109	177	194
% chg	(27.4)	32.1	(82.9)	171.1	62.4	9.6
(% of net sales)	14.5	15.7	3.0	6.4	9.0	8.5
Basic EPS (₹)	14.5	19.2	3.3	8.9	16.3	17.8
Fully diluted EPS (₹)	14.5	19.2	3.3	8.9	16.3	17.8
% chg	(27.4)	32.1	(82.9)	171.1	83.3	9.6

Balance sheet (Standalone)

Y/E March (₹ cr)	FY2009	FY2010	FY2011	FY012	FY2013E	FY2014E
SOURCES OF FUNDS						
Equity Share Capital	61	61	61	61	54	54
Preference Capital	-	-	-	-	-	-
Reserves & Surplus	770	960	985	1,114	1,182	1,358
Shareholders' Funds	831	1,021	1,046	1,175	1,236	1,412
Total Loans	703	922	997	1,070	1,470	1,600
Deferred Tax Liability	35	92	107	123	123	123
Other long term liabilities			28	31	31	31
Long term provisions			3	4	4	4
Total Liabilities	1,569	2,035	2,182	2,403	2,864	3,170
APPLICATION OF FUNDS						
Gross Block	1,760	1,904	2,319	2,450	2,500	3,800
Less: Acc. Depreciation	747	841	938	1,121	1,218	1,363
Net Block	1,013	1,063	1,381	1,329	1,282	2,437
Capital Work-in-Progress	97	182	41	294	894	44
Investments	89	481	528	454	354	354
Long term loans and advances			191	369	369	369
Current Assets	632	666	297	339	409	463
Cash	327	220	89	89	54	32
Loans & Advances	216	341	61	92	181	239
Other	89	104	148	158	174	191
Current liabilities	262	357	256	383	443	498
Net Current Assets	370	309	42	(44)	(35)	(35)
Mis. Exp. not written off	-	-	-	-	-	-
Total Assets	1,569	2,035	2,182	2,403	2,864	3,170

Cash flow statement (Standalone)

Y/E March (₹ cr)	FY2009	FY2010	FY2011	FY012	FY2013E	FY2014E
Profit before tax	227	331	79	173	235	254
Depreciation	69	80	85	130	97	144
Change in working Capital	22	(45)	(12)	(12)	(44)	(22)
Less: Other income	34	35	21	70	42	44
Direct taxes paid	48	90	20	34	58	60
Cash flow from operations	236	241	111	186	188	273
(Inc)/ Dec in fixed Assets	(282)	(228)	(274)	(385)	(650)	(450)
(Inc)/ Dec in investments	(76)	(392)	(47)	74	100	-
Other income	34	35	21	70	42	44
Cash flow from investing	(324)	(585)	(300)	(240)	(508)	(406)
Issue of equity					(97)	
Inc./ (Dec.) in loans	(5)	219	75	73	400	130
Dividend paid (Incl. Tax)	29	36	18	18	18	18
others	(101)	(54)				
Cash flow from financing	67	238	57	55	285	112
Inc./ (Dec.) in cash	(21)	(106)	(132)	0	(35)	(22)
Opening cash balances	348	327	220	89	89	54
Closing cash balances	327	220	89	89	54	32

Key ratios (Standalone)

Y/E March	FY2009	FY2010	FY2011	FY012	FY2013E	FY2014E
Valuation ratio (x)						
P/E (on FDEPS)	6.9	5.2	30.5	11.3	6.1	5.6
P/CEPS	4.9	3.8	8.5	4.6	4.0	3.2
P/BV	1.6	1.2	1.2	1.1	0.9	0.8
Dividend yield (%)	2.3	2.9	1.5	1.5	1.6	1.6
EV/Sales	1.2	0.9	1.3	0.9	0.7	1.0
EV/EBITDA	4.7	3.2	9.1	5.6	3.6	5.1
EV / Total Assets	0.9	0.7	0.8	0.7	0.5	0.8
Per share data (₹)						
EPS (Basic)	14.5	19.2	3.3	8.9	16.3	17.8
EPS (fully diluted)	14.5	19.2	3.3	8.9	16.3	17.8
Cash EPS	20.2	26.2	11.7	21.9	25.3	31.2
DPS	2.3	2.9	1.5	1.5	1.6	1.6
Book Value	64.1	80.9	84.3	94.8	112.6	128.8
DuPont analysis (%)						
EBIT margin	19.7	23.1	7.5	8.9	14.5	14.0
Tax retention ratio	78.8	72.9	75.0	80.3	75.3	76.3
Asset turnover (x)	1.1	1.2	0.9	1.0	0.9	0.9
ROIC (Post-tax)	17.9	20.2	5.1	7.1	9.9	9.3
Cost of debt (Post Tax)	5.5	4.9	4.7	6.2	5.5	5.4
Leverage (x)	1.0	0.9	0.9	0.9	1.1	1.2
Operating ROE	29.6	33.6	5.5	8.0	14.7	13.8
Returns (%)						
ROCE (Pre-tax)	16.6	19.1	4.7	6.6	10.8	10.6
Angel ROIC (Pre-tax)	25.0	31.2	7.4	9.8	18.2	14.8
ROE	24.1	25.3	3.9	9.8	14.7	14.6
Turnover ratios (x)						
Asset turnover (Gross Block)	0.8	0.8	0.6	0.7	0.8	0.7
Inventory / Sales (days)	19	17	27	26	23	21
Receivables (days)	6	6	8	7	8	8
Payables (days)	88	106	98	82	95	95
WC cycle (ex-cash) (days)	16	16	6	(19)	(21)	(12)
Solvency ratios (x)						
Net debt to equity	0.3	0.2	0.4	0.4	0.9	0.9
Net debt to EBITDA	0.9	0.5	2.1	1.9	2.8	2.6
Interest coverage (EBIT/ Int.)	4.9	6.3	1.6	1.9	3.1	2.9

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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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