

## JK Lakshmi Cement

### Performance Highlights

Y/E March (₹ cr)	4QFY2012	3QFY2012	% chg qoq	4QFY2011	% chg yoy
<b>Net revenue</b>	527	440	19.7	417	26.3
Operating profit	113	94	20.5	78	46.0
OPM (%)	21.5	21.4	14bp	18.6	291bp
<b>Adj. Net profit</b>	73	49	48.9	32	129.5

Source: Company, Angel Research

JK Lakshmi Cement (JKLC) reported a strong performance for 4QFY2012, with the company's adjusted net profit coming in at ₹73cr in 4QFY2012 as against ₹32cr in 4QFY2011. Bottom-line growth was driven by strong 12.8% yoy growth in realization, coupled with a similar 12.7% yoy improvement in volumes. During 4QFY2012, the company changed its method of charging depreciation on captive power plants from straight line to WDV with retrospective effect, which resulted in additional depreciation of ₹63cr, of which ₹39cr pertaining to previous years was charged as exceptional expenses. **We maintain our Buy rating on the stock.**

**OPM at 21.5%, up 291bp yoy:** During 4QFY2012, JKLC registered top-line growth of 26.3% yoy to ₹527cr on account of higher volumes and better realization. The company's volumes (including clinker) for the quarter stood at 1.42mn tonnes, up 12.7% yoy. Realization growth of 12.8% yoy was aided by strong demand in the company's prime markets. Despite the substantial increase in raw-material costs, OPM was boosted by a significant 14.5% yoy decline in per tonne power and fuel (P&F) cost. P&F cost declined due to lower pet coke prices, higher use of bio-mass and better energy efficiency.

**Outlook and valuation:** Going forward, we expect JKLC to post a healthy 14.5% CAGR in its top line over FY2012-14E, aided by an 11.7% CAGR in dispatches over the period. At the CMP, the stock is trading at cheap valuations in terms of replacement cost (EV/tonne of US\$43 on FY2014E capacity), even after considering its presence in unfavorable locations. Hence, we maintain our Buy recommendation on the stock with a target price of ₹79.

### Key financials (Standalone)

Y/E March (₹ cr)	FY2011	FY2012E	FY2013E	FY2014E
<b>Net sales</b>	<b>1,319</b>	<b>1,711</b>	<b>1,938</b>	<b>2,246</b>
% chg	(11.5)	29.7	13.2	15.9
<b>Net profit</b>	<b>59</b>	<b>139</b>	<b>159</b>	<b>175</b>
% chg	(75.5)	134.6	14.5	10.3
<b>FDEPS (₹)</b>	4.8	9.4	13.0	14.3
OPM (%)	13.9	16.5	19.1	20.1
P/E (x)	19.2	7.1	4.3	3.9
P/BV (x)	0.7	0.7	0.6	0.5
RoE (%)	3.9	9.8	13.4	13.6
RoCE (%)	4.7	6.7	10.4	10.3
EV/Sales (x)	0.9	0.6	0.5	0.9
EV/Tonne (US\$)	43	32	26	43
EV/EBITDA (x)	6.6	3.9	2.5	4.3

Source: Company, Angel Research

## BUY

CMP	₹63
Target Price	₹79

Investment Period	12 Months
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### Stock Info

Sector	Cement
Market Cap (₹ cr)	770
Beta	1.1
52 Week High / Low	70/36
Avg. Daily Volume	52,632
Face Value (₹)	5
BSE Sensex	16,026
Nifty	4,861
Reuters Code	JKLC.BO
Bloomberg Code	JKLC@IN

### Shareholding Pattern (%)

Promoters	44.2
MF / Banks / Indian Fls	15.7
FII / NRIs / OCBs	7.2
Indian Public / Others	32.8

Abs. (%)	3m	1yr	3yr
Sensex	(12.4)	(10.9)	15.4
JKLC	(1.1)	44.5	37.2

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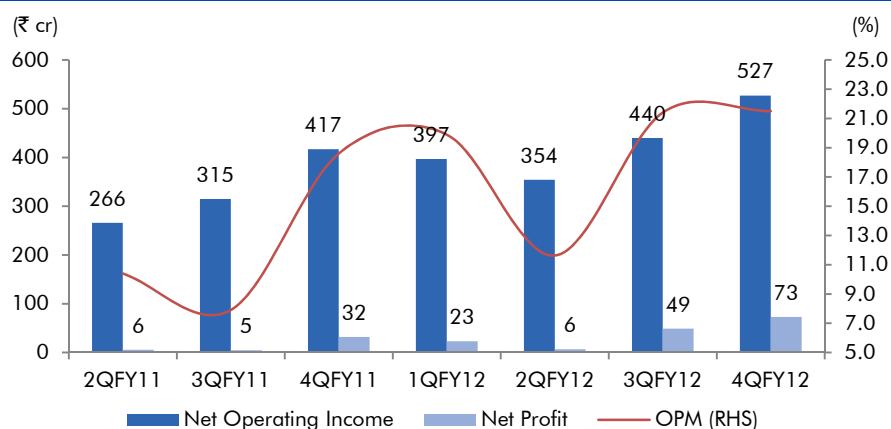
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**Exhibit 1: 4QFY2012 performance**

Y/E March (₹ cr)	4QFY2012	3QFY2012	% Chg qoq	4QFY2011	% Chg yoy
<b>Total Operating Income</b>	<b>527</b>	<b>440</b>	<b>19.7</b>	<b>417</b>	<b>26.3</b>
Net raw-material costs	136	66	105.0	76	78.3
(% of sales)	25.8	15.1		18.3	
Power & fuel	100	108	(7.8)	103	(3.5)
(% of sales)	19.0	24.6		24.8	
Staff costs	30	24	27.9	24	23.2
(% of sales)	5.7	5.3		5.9	
Freight & forwarding	93	83	12.3	76	21.8
(% of sales)	17.6	18.8		18.3	
Other expenses	54	65	(16.4)	59	(7.8)
(% of sales)	10.3	14.8		14.1	
<b>Total Expenditure</b>	<b>413</b>	<b>346</b>	<b>19.5</b>	<b>339</b>	<b>21.7</b>
<b>Operating Profit</b>	<b>113</b>	<b>94</b>	<b>20.5</b>	<b>78</b>	<b>46.0</b>
OPM (%)	21.5	21.4	14bp	18.6	291bp
Interest	14	22	(39.0)	15	(9.8)
Depreciation	54	26	110.6	23	133.4
Other Income	33	15	126	10.5	217.0
<b>PBT</b>	<b>79</b>	<b>61</b>	<b>29.8</b>	<b>50</b>	<b>58.3</b>
Extr. (Income)/Expense	39	-		-	
<b>PBT after Extr.</b>	<b>40</b>	<b>61</b>	<b>(34.0)</b>	<b>50</b>	<b>(19.5)</b>
Provision for tax	10	12		18	
(%) of PBT	12.4	19.5			
<b>Reported PAT</b>	<b>31</b>	<b>49.2</b>	<b>(38.0)</b>	<b>32.0</b>	<b>(4.4)</b>
PATM (%)	13.9	11.2		7.7	

Source: Company, Angel Research

**Exhibit 2: Financial performance**



Source: Company, Angel Research

**Exhibit 3: 4QFY2012 – Actual vs. Angel estimates**

(₹ cr)	Actual	Estimates	Variation (%)
Net Sales	527	439	20.1
Operating Profit	113	85	33.3
OPM (%)	21.5	19.4	213bp
Net Profit	73	43	69.1

Source: Company, Angel Research

**Performance highlights**
**Top line up 26.3% yoy, driven by higher realization and dispatches**

During 4QFY2012, JKLC registered 26.3% yoy growth in its top line to ₹527cr on account of a 12.8% yoy improvement in realization to ₹3,717/tonne and a 12.7% yoy increase in dispatches to 1.42mn tonnes. On the operating front, the company's OPM improved by 291bp yoy to 21.5% due to strong realization growth and significant savings in power and fuel cost.

**Per tonne analysis**

In 4QFY2012, JKLC's power and fuel costs per tonne fell by 14.5% yoy to ₹705/tonne on account of higher use of cheaper biomass as fuel, use of power from waste heat recovery plants, reduction in pet coke prices and improved energy efficiency. Freight cost per tonne grew by 7.9% yoy to ₹656 due to higher costs of petroleum products and increased railway freight charges. Operating profit per tonne stood at ₹801 during the quarter, up 29.4% yoy.

**Exhibit 4: Per tonne analysis**

(₹)	4QFY12	3QFY12	4QFY11	chg (%) yoy	chg (%) qoq
Realization/tonne	3,717	3,588	3,298	12.7	3.6
Raw-material cost/tonne	961	543	608	58.0	77.1
Power and fuel cost/tonne	705	886	824	(14.5)	(20.4)
Freight costs/tonne	656	677	608	7.9	(3.0)
Other costs/tonne	384	531	469	(18.2)	(27.8)
Operating profit/tonne	801	770	619	29.4	4.0

Source: Company, Angel Research

## Conference call highlights

- JKLC has a capex plan of ₹1,500cr-1,600cr (including ₹500cr-600cr already spent) to be spent over the next 18 months, which would be incurred towards setting a 2.7mtpa greenfield plant at Durg in Chhattisgarh with split grinding units in Orissa and Jharkhand and kiln capacity augmentation in its Rajasthan plant from 3.96mn tonnes to 4.29mn tonnes. The planned cost for Durg plant is ₹1,250cr. The company expects Durg plant to come on stream by October 2013 and the company's total capacity then would be raised to 8mtpa. Further, the company's split grinding plant at Jhajjar, Haryana, commenced operations in April 2012. The company further indicated that it has placed equipment orders for the Durg plant.
- The company is also planning to revive JK Cement Udaipur (a group company currently under BIFR, having 1.4mtpa cement plant) at an estimated total cost of ₹500cr and expects the revival to be completed by April 2014. JKLC plans to invest ₹150cr into JK Cement Udaipur and plans to have a controlling stake in the latter. However, the ownership structure is yet to be finalized. JKLC, which had earlier announced an equity share buyback up to an amount of ₹97.5cr at a maximum price of ₹70 per equity share by conducting open market purchases in Stock Exchanges, is still in the process of completing the same.

## 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 is state-wise India's second biggest capacity cluster, with 44.8mtpa of total capacity in 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 UP), apart from meeting its own demand.

## Outlook and valuation

Going forward, we expect JKLC to post a healthy 14.5% CAGR in its top line over FY2012-14E, aided by an 11.7% CAGR in dispatches over the period. At the CMP, the stock is trading at cheap valuations in terms of replacement cost (EV/tonne of US\$43 on FY2014E capacity), even after considering its presence in unfavorable locations. **Hence, we maintain our Buy recommendation on the stock with a target price of ₹79.**

### Exhibit 5: Change in estimates

Parameter (₹ cr)	FY2013E			FY2014E		
	Earlier	Revised	Var. (%)	Earlier	Revised	Var. (%)
Net Sales	1,880	1,938	3.1	2,201	2,246	2.0
Operating Exp.	1,522	1,568	3.0	1,704	1,795	5.3
Operating Profit	358	370	3.3	497	451	(9.2)
Depreciation	106	98	(7.1)	130	145	11.5
Interest	32	32	1.0	35	34	(3.0)
PBT	176	211	19.9	254	229	(9.8)
Tax	44	52	18.3	76	54	(28.8)
PAT	132	159	20.4	178	175	(1.6)

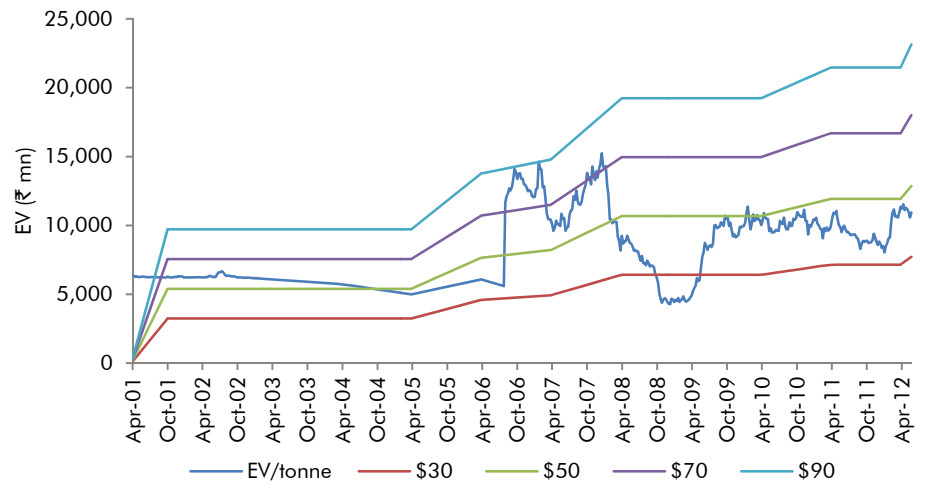
Source: Angel Research

### Exhibit 6: Recommendation summary

Company	Reco.	CMP (₹)	Tgt. Price (₹)	Upside (%)	FY2014E P/BV (x)	FY2014E P/E (x)	FY2012-14E EPS CAGR (%)	FY2014E RoCE (%)	FY2014E RoE (%)
ACC*	Neutral	1,130	-	-	2.5	13.9	7.3	23.3	19.0
Ambuja Cements*	Neutral	140	-	-	2.4	13.3	13.7	22.2	19.4
India Cements	Neutral	72	-	-	0.6	6.3	8.6	9.4	9.5
<b>JKLC</b>	<b>Buy</b>	<b>63</b>	<b>79</b>	<b>25</b>	<b>0.5</b>	<b>3.9</b>	<b>34.8</b>	<b>10.3</b>	<b>13.6</b>
Madras Cements	Neutral	138	-	-	1.2	7.6	4.7	14.4	16.9
Shree Cement	Neutral	2,569	-	-	2.7	11.6	66.4	21.1	25.8
UltraTech	Neutral	1,380	-	-	2.2	13.2	8.3	17.6	17.9

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

**Exhibit 7: One-year forward EV/Tonne band**



Source: BSE, Company, Angel Research

**Profit and loss statement (Standalone)**

Y/E March (₹ cr)	FY2009	FY2010	FY2011	FY2012	FY2013E	FY2014E
<b>Total operating income</b>	<b>1,225</b>	<b>1,491</b>	<b>1,319</b>	<b>1,711</b>	<b>1,938</b>	<b>2,246</b>
% chg	10.6	21.7	(11.5)	29.7	13.2	15.9
Total expenditure	914	1,066	1,136	1,429	1,568	1,795
Net raw material	182	234	204	368	380	424
Other mfg. costs	306	290	392	414	460	515
Personnel	69	85	81	98	106	117
Other	356	457	459	550	621	739
<b>EBITDA</b>	<b>311</b>	<b>425</b>	<b>183</b>	<b>282</b>	<b>370</b>	<b>451</b>
% chg	(11.6)	36.7	(56.9)	53.8	31.3	22.0
(% of net sales)	25.4	28.5	13.9	16.5	19.1	20.1
Depreciation & amortization	69	80	85	130	98	145
<b>EBIT</b>	<b>241</b>	<b>345</b>	<b>99</b>	<b>152</b>	<b>272</b>	<b>306</b>
% chg	(17.5)	42.7	(71.4)	54.1	78.7	12.6
(% of net sales)	19.7	23.1	7.5	8.9	14.0	13.6
Interest & other charges	50	55	60	80	93	110
Other income	34	35	21	70	32	34
(% of PBT)	14.9	10.5	26.8	40.8	15.3	14.7
<b>Recurring PBT</b>	<b>226</b>	<b>324</b>	<b>60</b>	<b>143</b>	<b>211</b>	<b>229</b>
% chg	(16.9)	43.7	(81.6)	138.7	47.7	8.8
Extraordinary expense/(Inc.)	(1)	(6)	(19)	(30)	-	-
<b>PBT (reported)</b>	<b>227</b>	<b>331</b>	<b>79</b>	<b>173</b>	<b>211</b>	<b>229</b>
Tax	48	90	20	34	52	54
(% of PBT)	21.2	27.1	25.0	19.7	24.7	23.7
<b>PAT (reported)</b>	<b>179</b>	<b>241</b>	<b>59</b>	<b>139</b>	<b>159</b>	<b>175</b>
<b>ADJ. PAT</b>	<b>178</b>	<b>235</b>	<b>40</b>	<b>109</b>	<b>159</b>	<b>175</b>
% chg	(27.4)	32.1	(82.9)	171.1	46.0	10.3
(% of net sales)	14.5	15.7	3.0	6.4	8.2	7.8
<b>Basic EPS (₹)</b>	<b>14.5</b>	<b>19.2</b>	<b>3.3</b>	<b>8.9</b>	<b>14.6</b>	<b>16.1</b>
<b>Fully diluted EPS (₹)</b>	<b>14.5</b>	<b>19.2</b>	<b>3.3</b>	<b>8.9</b>	<b>14.6</b>	<b>16.1</b>
% chg	(27.4)	32.1	(82.9)	171.0	64.8	10.3

**Balance sheet (Standalone)**

Y/E March (₹ cr)	FY2009	FY2010	FY2011	FY012E	FY2013E	FY2014E
<b>SOURCES OF FUNDS</b>						
Equity Share Capital	61	61	61	61	54	54
Preference Capital	-	-	-	-	-	-
Reserves & Surplus	770	960	985	1,106	1,156	1,314
<b>Shareholders' Funds</b>	<b>831</b>	<b>1,021</b>	<b>1,046</b>	<b>1,167</b>	<b>1,211</b>	<b>1,368</b>
Total Loans	703	922	1,017	1,117	1,517	1,647
Deferred Tax Liability	35	92	107	107	107	107
<b>Total Liabilities</b>	<b>1,569</b>	<b>2,035</b>	<b>2,171</b>	<b>2,392</b>	<b>2,835</b>	<b>3,123</b>
<b>APPLICATION OF FUNDS</b>						
Gross Block	1,760	1,904	2,319	2,469	2,519	3,819
Less: Acc. Depreciation	747	841	938	1,067	1,166	1,311
<b>Net Block</b>	<b>1,013</b>	<b>1,063</b>	<b>1,381</b>	<b>1,401</b>	<b>1,353</b>	<b>2,508</b>
Capital Work-in-Progress	97	182	74	424	1,024	74
Goodwill	-	-	-	-	-	-
<b>Investments</b>	<b>89</b>	<b>481</b>	<b>528</b>	<b>408</b>	<b>308</b>	<b>308</b>
Current Assets	632	666	554	595	645	790
Cash	327	220	91	68	37	120
Loans & Advances	216	341	313	345	409	451
Other	89	104	150	182	198	219
Current liabilities	262	357	367	437	495	558
<b>Net Current Assets</b>	<b>370</b>	<b>309</b>	<b>188</b>	<b>158</b>	<b>150</b>	<b>232</b>
Mis. Exp. not written off	-	-	-	-	-	-
<b>Total Assets</b>	<b>1,569</b>	<b>2,035</b>	<b>2,171</b>	<b>2,392</b>	<b>2,835</b>	<b>3,123</b>

**Cash flow statement (Standalone)**

Y/E March (₹ cr)	FY2009	FY2010	FY2011	FY012E	FY2013E	FY2014E
Profit before tax	227	331	79	173	211	229
Depreciation	69	80	85	130	98	145
Change in working Capital	22	(45)	(8)	6	(22)	1
Less: Other income	34	35	21	70	32	34
Direct taxes paid	48	90	20	34	52	54
<b>Cash flow from operations</b>	<b>236</b>	<b>241</b>	<b>115</b>	<b>204</b>	<b>202</b>	<b>287</b>
(Inc)/ Dec in fixed Assets	(282)	(228)	(307)	(500)	(650)	(350)
(Inc)/ Dec in investments	(76)	(392)	(47)	120	100	-
Other income	34	35	21	70	32	34
<b>Cash flow from investing</b>	<b>(324)</b>	<b>(585)</b>	<b>(334)</b>	<b>(310)</b>	<b>(518)</b>	<b>(316)</b>
Issue of equity					(97)	
Inc./(Dec.) in loans	(5)	219	96	100	400	130
Dividend paid (Incl. Tax)	29	36	18	18	18	18
others	(101)	(54)	(12)			
<b>Cash flow from financing</b>	<b>67</b>	<b>238</b>	<b>90</b>	<b>82</b>	<b>285</b>	<b>112</b>
Inc./(Dec.) in cash	(21)	(106)	(129)	(24)	(31)	83
<b>Opening cash balances</b>	<b>348</b>	<b>327</b>	<b>220</b>	<b>91</b>	<b>68</b>	<b>37</b>
<b>Closing cash balances</b>	<b>327</b>	<b>220</b>	<b>91</b>	<b>68</b>	<b>37</b>	<b>120</b>



**Key ratios (Standalone)**

Y/E March	FY2009	FY2010	FY2011	FY012E	FY2013E	FY2014E
<b>Valuation ratio (x)</b>						
P/E (on FDEPS)	4.3	3.3	19.2	7.1	4.3	3.9
P/CEPS	3.1	2.4	5.4	2.9	2.7	2.1
P/BV	1.0	0.8	0.7	0.7	0.6	0.5
Dividend yield (%)	3.7	4.6	2.3	2.3	2.6	2.6
EV/Sales	0.8	0.6	0.9	0.6	0.5	0.9
EV/EBITDA	3.2	2.1	6.6	3.9	2.5	4.3
EV / Total Assets	0.6	0.4	0.6	0.5	0.3	0.6
<b>Per share data (₹)</b>						
EPS (Basic)	14.5	19.2	3.3	8.9	14.6	16.1
EPS (fully diluted)	14.5	19.2	3.3	8.9	14.6	16.1
Cash EPS	20.2	26.2	11.7	21.9	23.7	29.5
DPS	2.3	2.9	1.5	1.5	1.6	1.6
Book Value	64.1	80.9	84.3	94.1	110.2	124.7
<b>DuPont analysis (%)</b>						
EBIT margin	19.7	23.1	7.5	8.9	14.0	13.6
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	7.0	9.3	9.0
Cost of debt (Post Tax)	5.5	4.9	4.6	6.0	5.3	5.3
Leverage (x)	1.0	0.9	0.9	1.0	1.1	1.2
Operating ROE	29.6	33.6	5.6	8.0	13.7	13.5
<b>Returns (%)</b>						
ROCE (Pre-tax)	16.6	19.1	4.7	6.7	10.4	10.3
Angel ROIC (Pre-tax)	25.0	31.2	7.5	10.2	18.4	15.0
ROE	24.1	25.3	3.9	9.8	13.4	13.6
<b>Turnover ratios (x)</b>						
Asset turnover (Gross Block)	0.8	0.8	0.6	0.7	0.8	0.7
Inventory / Sales (days)	19	17	27	28	28	25
Receivables (days)	6	6	8	7	8	8
Payables (days)	88	106	116	103	108	107
WC cycle (ex-cash) (days)	16	16	26	20	19	18
<b>Solvency ratios (x)</b>						
Net debt to equity	0.3	0.2	0.4	0.6	1.0	0.9
Net debt to EBITDA	0.9	0.5	2.2	2.3	3.2	2.7
Interest coverage (EBIT/ Int.)	4.9	6.3	1.6	1.9	2.9	2.8

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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*

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