

JK Lakshmi Cement

Performance Highlights

Quarterly results (Standalone)

Y/E March (₹ cr)	2QFY2013	1QFY2013	% chg qoq	2QFY2012	% chg yoy
Net revenue	491	533	(7.9)	354	38.8
Operating profit	113	122	(7.1)	41	174.3
OPM (%)	23.0	22.8	18bp	11.6	1,136bp
Net profit	51	50	1.4	6	685.7

Source: Company, Angel Research

JK Lakshmi Cement (JKLC)'s net profit in 2QFY2013 grew by 686% yoy driven by a strong 29.2% yoy improvement in blended realization and a reasonably good 7-8% growth in volumes. The volume growth on a yoy basis was aided by additional volumes from the company's new split-grinding capacity in Jhajjar, which was commissioned in April 2012.

OPM at 23.0%, up 1,136bp yoy: During 2QFY2013, JKLC registered a robust top-line growth of 38.8% yoy to ₹491cr. Volumes stood at ~1.21mn tonne, up 7-8% on a yoy basis. Blended realization grew by 29.2% yoy and stood at ₹4,061/tonne. The company posted a steep 1,136bp yoy improvement in its OPM to 23.0% led by a better realization. The realization was higher by 5.5% even on a qoq basis as delayed monsoon resulted in cement prices going up in the company's key markets in July, before witnessing a decline in August and September. However, the average realization was still higher on a qoq basis. Further, there was an improvement in the sales mix as the proportion of trade segment in the overall sales volume went up resulting in higher realization.

Outlook and valuation: Going ahead, we expect JKLC to post a 28% CAGR in its bottom-line over FY2012-14E, due to its presence in high growth regions. At the current market price, the stock is trading cheaply at an EV/tonne of US\$55/tonne (on FY2014E capacity), which is a steep discount to replacement cost. **We recommend a Buy on the stock with a target price of ₹143.**

Key financials (Standalone)

Y/E March (₹ cr)	FY2011	FY2012	FY2013E	FY2014E
Net sales	1,319	1,718	2,082	2,423
% chg	(11.5)	30.3	21.2	16.4
Net profit	59	109	226	243
% chg	(75.5)	84.1	107.4	7.8
FDEPS (₹)	4.8	12.1	20.8	22.4
OPM (%)	13.9	19.1	22.9	23.1
P/E (x)	37.5	10.2	5.9	5.5
P/BV (x)	1.5	1.3	1.0	0.9
RoE (%)	3.9	13.3	18.4	17.4
RoCE (%)	4.7	8.7	14.3	13.5
EV/Sales (x)	1.5	1.1	0.8	1.0
EV/Tonne (US\$)	78	69	47	55
EV/EBITDA (x)	10.6	5.7	3.3	4.5

Source: Company, Angel Research

BUY

CMP	₹123
Target Price	₹143

Investment Period	12 Months
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Stock Info

Sector	Cement
Market Cap (₹ cr)	1,504
Net Debt (₹ cr)	620
Beta	1.1
52 Week High / Low	131/37
Avg. Daily Volume	68,088
Face Value (₹)	5
BSE Sensex	18,759
Nifty	5,705
Reuters Code	JKLC.BO
Bloomberg Code	JKLC@IN

Shareholding Pattern (%)

Promoters	46.0
MF / Banks / Indian Fls	12.5
FII / NRIs / OCBs	6.7
Indian Public / Others	34.8

Abs. (%)	3m	1yr	3yr
Sensex	11.4	8.7	11.6
JKLC	44.7	194.7	90.6

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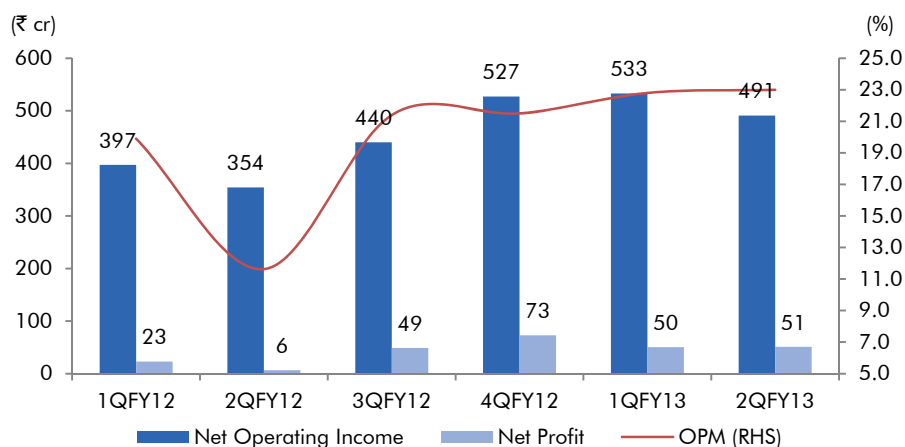
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Exhibit 1: Quarterly Performance (Standalone)

Y/E March (₹ cr)	2QFY2013	1QFY2013	% Chg	2QFY2012	% Chg	1HFY2013	1HFY2012	% Chg
Net sales	491	533	(7.9)	354	38.8	1,026	751	36.5
Net raw-material costs	94	113	(17.2)	67	39.0	207	149	38.9
(% of sales)	19.0	21.2		19.0		20.2	19.8	
Power & fuel	110	116	(5.4)	97	13.4	227	206	10.3
(% of sales)	22.4	21.8		27.4		22.1	27.4	
Staff costs	29	28	5.0	22	32.2	57	45	27.1
(% of sales)	5.9	5.2		6.2		5.5	6.0	
Freight & forwarding	95	104	(8.3)	76	24.6	199	156	28.0
(% of sales)	19.4	19.5		21.6		19.4	20.7	
Other expenses	50	51	(0.5)	50	0.6	101	76	32.3
(% of sales)	10.2	9.5		14.1		9.8	10.1	
Total Expenditure	378	412	(8.1)	313	20.9	790	631	25.3
Operating Profit	113	122	(7.1)	41	174.3	235	120	95.5
OPM	23.0	22.8	18bp	11.6	1136bp	22.9	16.0	692
Interest	22	21	8.6	20	10.4	43	43	(0.8)
Depreciation	32	33	(1.1)	26	26.9	65	50	30.2
Other income	15	5	222	12.5	24.2	20	15	34.0
PBT (excl. Extr. Items)	74	73	0.8	8	839.2	146	41	253.2
Extr. Income/(Expense)	-	-	-	-	-	-	-	-
PBT (incl. Extr. Items)	74	73	0.8	8	839.2	146	41	253.2
Provision for taxation	23	23		1		45	12	271
(% of PBT)	30.7	31.2				31.0	29.5	
Adjusted PAT	51.0	50.3	1.4	6.5	685.7	101	29	245.6
PATM	10.4	9.4		1.8		9.9	3.9	
EPS (₹)	4.3	4.3		0.5		8.6	2.4	

Source: Company, Angel Research

Exhibit 2: Financial performance


Source: Company, Angel Research

Exhibit 3: 2QFY2013 – Actual vs Angel estimates

(₹ cr)	Actual	Estimates	Variation (%)
Net Sales	491	413	19.1
Operating Profit	113	84	35.1
OPM (%)	23.0	20.3	268bp
Net Profit	51	35	44.0

Source: Company, Angel Research

Performance highlights
Top-line up 38.8% yoy, driven by higher realization

During 2QFY2013, JKLC registered a 38.8% yoy growth in its top-line to ₹491cr primarily on account of a 29.2% yoy improvement in blended realization to ₹4,061/tonne. The company is present only in the northern and western regions and has no exposure to the south. Delayed monsoon resulted in cement prices going up in the company's key markets in July, before witnessing a decline in August and September, resulting in a higher 5.5% realization even on a qoq basis. Volumes too rose by 7-8% yoy.

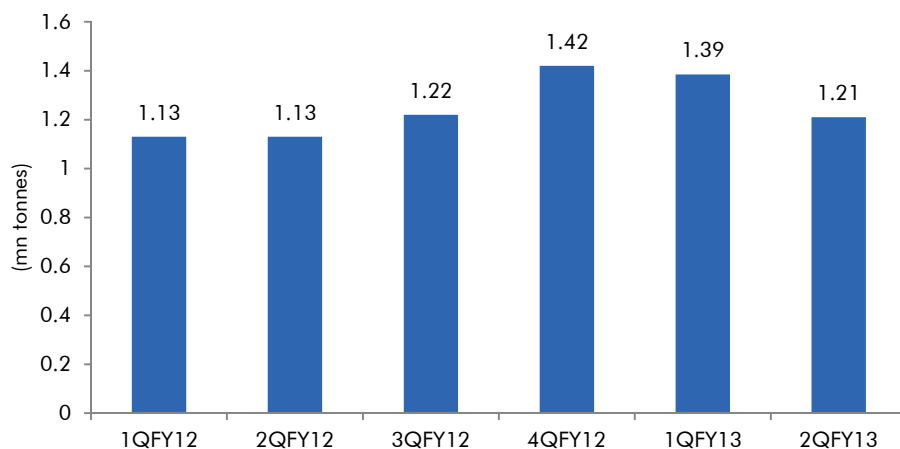
The company's overall operating costs too went up on a yoy basis. The power and fuel costs per tonne of cement rose 5.6% yoy and 8.3% qoq even though the company maintained that pet coke prices remained stable during the quarter. The freight cost/tonne rose by 16.1% yoy and 5.0% qoq to ₹787. Freight costs rose on account of increase in diesel costs and hike in railway freight fares. The management indicated that it currently has a rail road mix of 53% and 47% respectively. However, realization growth was strong enough to beat the 12.6% yoy increase in operating costs per tonne, resulting in a 155.5% yoy increase in operating profit per tonne to ₹933. Even on a sequential basis, the operating profit per tonne rose by 6.3%.

Exhibit 4: Operational performance

Particulars (₹)	2QFY2013	1QFY2013	2QFY2012	chg (%) yoy	chg (%) qoq
Realization/tonne	4,061	3,851	3,142	29.2	5.5
Raw-material cost/tonne	774	817	598	29.4	(5.3)
P&F cost /tonne	911	841	862	5.6	8.3
Freight cost/tonne	787	750	678	16.1	5.0
Other costs	415	365	443	(6.3)	13.9
Operating costs	3,128	2,972	2,777	12.6	5.2
Operating profit/tonne	933	878	365	155.5	6.3

Source: Company, Angel Research

Exhibit 5: Volume performance



Source: Company, Angel Research

Conference call highlights

- JKLC reiterated that the 2.7mtpa Durg expansion with grinding units at three different locations would come on stream by December 2013. The clinker capacity at Durg would be 1.5mtpa, along with a 0.9mtpa grinding facility. The company has proposed to set up two grinding, ie in West Bengal and in Orissa. While the company has identified the location for the West Bengal grinding unit, it is yet to identify the location for the Orissa grinding unit. The management added that the West Bengal unit would initially have 0.5mtpa capacity, which can be scaled up to 1mtpa in the future. It further added that the Chattisgarh grinding unit will be fully slag based, while the West Bengal unit would be 50% slag and 50% fly ash based. These expansions, when complete, would take the company's cement capacity to 8mtpa.
- The total estimated cost for the complete refurbishing of the Udaipur Cement Works (UCW) plant is ₹330cr. JK Lakshmi has to invest ₹100cr, including the ₹50cr of non-convertible debentures (NCD) issued during the quarter to the erstwhile lenders of Udaipur Cement Works. The plant currently has capacity of 1mtpa and can be expanded to 1.4mtpa. The management expects the UCW plant to come on stream in the next two years. In all the company expects to hold ~85% stake in UCW in the future.

Investment rationale

Presence in high growth region to result in healthy volume growth: JKLC has 60% and 40% exposure to the northern and western regions, with no exposure in south. We expect the company to post a healthy 13% CAGR in volumes over FY2012-14E.

High captive power usage to result in healthy 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.

Outlook and valuation

Going ahead, we expect JKLC to post a 28% CAGR in its bottom-line over FY2012-14E, due to its presence in high growth regions. At the current market price, the stock is available cheap at an EV/tonne of US\$55/tonne (on FY2014E capacity), which is at a steep discount to replacement cost. We recommend a Buy on the stock with a target price of ₹143.

Exhibit 6: Change in estimates

Parameter (₹ cr)	FY2013E			FY2014E		
	Earlier	Revised	Var. (%)	Earlier	Revised	Var. (%)
Net Sales	1,964	2,082	6.0	2,278	2,423	6.4
Operating Exp.	1,581	1,605	1.5	1,815	1,862	2.6
Operating Profit	383	477	24.6	464	561	20.9
Depreciation	97	97	-	144	144	-
PBT	235	317	35.2	254	337	32.9
Tax	58	91	57.7	60	94	56.0
PAT	177	226	27.8	194	243	25.8

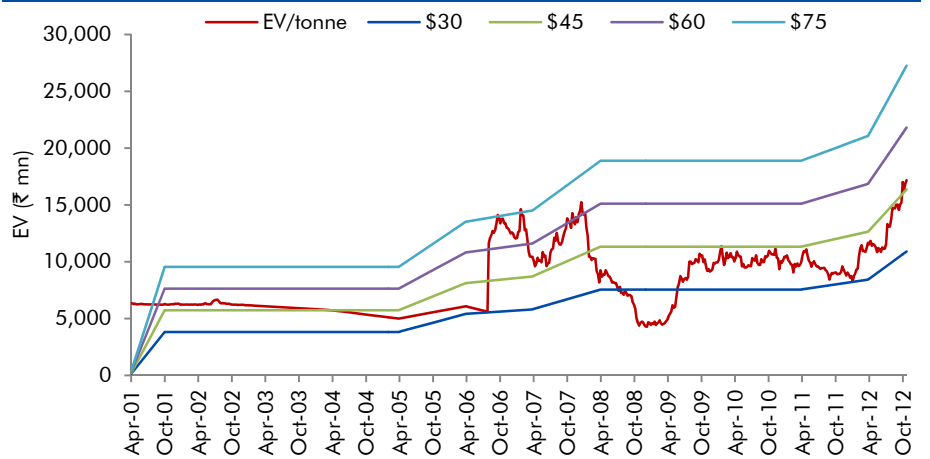
Source: Angel Research

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	1,401	-	-	3.1	16.9	8.5	19.2	136
Ambuja Cements*	Neutral	206	-	-	3.5	15.9	25.7	21.1	184
India Cements	Neutral	98	-	-	0.8	8.0	12.8	10.2	63
JK Lakshmi	Buy	123	143	16.4	0.9	5.5	36.2	17.4	52
Madras Cement	Neutral	192	-	-	1.7	10.5	6.2	17.0	65
Shree Cements#	Neutral	4,201	-	-	3.5	16.1	20.0	23.6	138
UltraTech Cements	Neutral	2,043	-	-	3.1	16.8	16.6	20.1	204

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

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 a current total capacity of 5.3mtpa spread across Rajasthan (4.2mtpa), Gujarat (0.5mtpa) and Haryana (0.55mtpa). The company also has plans to set up a 2.7mtpa green field plant at Durg in Chhattisgarh by December 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	1,718	2,082	2,423
% chg	10.6	21.7	(11.5)	30.3	21.2	16.4
Total expenditure	914	1,066	1,136	1,390	1,605	1,862
Net raw material	182	234	204	368	382	427
Other mfg. costs	306	290	392	414	471	545
Personnel	69	85	81	98	123	135
Other	356	457	459	511	630	755
EBITDA	311	425	183	328	477	561
% chg	(11.6)	36.7	(56.9)	79.1	45.3	17.7
(% of net sales)	25.4	28.5	13.9	19.1	22.9	23.1
Depreciation & amortization	69	80	85	130	97	144
EBIT	241	345	99	198	379	416
% chg	(17.5)	42.7	(71.4)	101.1	91.1	9.9
(% of net sales)	19.7	23.1	7.5	11.5	18.2	17.2
Interest & other charges	50	55	60	80	92	110
Other income	34	35	21	63	30	30
(% of PBT)	14.9	10.5	26.8	44.4	9.5	9.0
Recurring PBT	226	324	60	182	317	337
% chg	(16.9)	43.7	(81.6)	204.5	74.1	6.3
Extraordinary expense/(Inc.)	(1)	(6)	(19)	39	-	-
PBT (reported)	227	331	79	143	317	337
Tax	48	90	20	34	91	94
(% of PBT)	21.2	27.1	25.0	23.8	28.8	27.8
PAT (reported)	179	241	59	109	226	243
ADJ. PAT	178	235	40	148	226	243
% chg	(27.4)	32.1	(82.9)	269.0	52.5	7.8
(% of net sales)	14.5	15.7	3.0	8.6	10.8	10.0
Basic EPS (₹)	14.5	19.2	3.3	12.1	20.8	22.4
Fully diluted EPS (₹)	14.5	19.2	3.3	12.1	20.8	22.4
% chg	(27.4)	32.1	(82.9)	269.0	72.0	7.8

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	1,231	1,457
Shareholders' Funds	831	1,021	1,046	1,175	1,286	1,511
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	2,913	3,269
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	467	580
Cash	327	220	89	89	96	119
Loans & Advances	216	341	61	92	190	259
Other	89	104	148	158	182	202
Current liabilities	262	357	256	383	453	515
Net Current Assets	370	309	42	(44)	14	64
Mis. Exp. not written off	-	-	-	-	-	-
Total Assets	1,569	2,035	2,182	2,403	2,913	3,269

Cash flow statement (Standalone)

Y/E March (₹ cr)	FY2009	FY2010	FY2011	FY012	FY2013E	FY2014E
Profit before tax	227	331	79	143	317	337
Depreciation	69	80	85	130	97	144
Change in working Capital	22	(45)	(12)	17	(51)	(26)
Less: Other income	34	35	21	63	30	30
Direct taxes paid	48	90	20	34	91	94
Cash flow from operations	236	241	111	193	242	331
(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	63	30	30
Cash flow from investing	(324)	(585)	(300)	(247)	(520)	(420)
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	7	24
Opening cash balances	348	327	220	89	89	96
Closing cash balances	327	220	89	89	96	119

Key ratios (Standalone)

Y/E March	FY2009	FY2010	FY2011	FY012	FY2013E	FY2014E
Valuation ratio (x)						
P/E (on FDEPS)	8.5	6.4	37.5	10.2	5.9	5.5
P/CEPS	6.1	4.7	10.5	6.3	4.1	3.4
P/BV	1.9	1.5	1.5	1.3	1.0	0.9
Dividend yield (%)	1.9	2.4	1.2	1.2	1.3	1.3
EV/Sales	1.4	1.1	1.5	1.1	0.8	1.0
EV/EBITDA	5.6	3.9	10.6	5.7	3.3	4.5
EV / Total Assets	1.1	0.8	0.9	0.8	0.5	0.8
Per share data (₹)						
EPS (Basic)	14.5	19.2	3.3	12.1	20.8	22.4
EPS (fully diluted)	14.5	19.2	3.3	12.1	20.8	22.4
Cash EPS	20.2	26.2	11.7	19.5	29.8	35.8
DPS	2.3	2.9	1.5	1.5	1.6	1.6
Book Value	64.1	80.9	84.3	94.8	117.1	137.9
DuPont analysis (%)						
EBIT margin	19.7	23.1	7.5	11.5	18.2	17.2
Tax retention ratio	78.8	72.9	75.0	76.2	71.2	72.2
Asset turnover (x)	1.1	1.2	0.9	1.0	1.0	0.9
ROIC (Post-tax)	17.9	20.2	5.1	8.8	12.5	11.4
Cost of debt (Post Tax)	5.5	4.9	4.7	5.9	5.2	5.2
Leverage (x)	1.0	0.9	0.9	0.9	1.0	1.1
Operating ROE	29.6	33.6	5.5	11.6	20.0	18.3
Returns (%)						
ROCE (Pre-tax)	16.6	19.1	4.7	8.7	14.3	13.5
Angel ROIC (Pre-tax)	25.0	31.2	7.4	12.8	24.2	19.3
ROE	24.1	25.3	3.9	13.3	18.4	17.4
Turnover ratios (x)						
Asset turnover (Gross Block)	0.8	0.8	0.6	0.7	0.8	0.8
Inventory / Sales (days)	19	17	27	25	22	20
Receivables (days)	6	6	8	7	8	8
Payables (days)	88	106	98	84	95	95
WC cycle (ex-cash) (days)	16	16	6	(19)	(19)	(10)
Solvency ratios (x)						
Net debt to equity	0.3	0.2	0.4	0.4	0.8	0.7
Net debt to EBITDA	0.9	0.5	2.1	1.6	2.1	2.0
Interest coverage (EBIT/ Int.)	4.9	6.3	1.6	2.5	4.1	3.8

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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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