

JK Lakshmi Cement

Strong volume growth

During 2QFY21, JK Lakshmi Cement (JKLC) reported strong 16% volume growth, riding on strong regional demand. Along with lower opex, this drove standalone revenue/EBITDA/APAT to grow 12/26/76% to Rs 10.45/1.87/0.81bn respectively. Robust 2Q and working capital compression aided 33% net debt reduction vs Mar'20. We maintain BUY rating on the stock with an SOTP-based target price of Rs 435/share. We like JKLC for its large exposure to the lucrative north/central markets and cost stabilisation in its east operations.

- 2QFY21 performance:** Sales volume rose 16% YoY (+25% QoQ) to 2.39mn MT, riding on strong demand across the north half of India. Adjusted for non-cement revenues, NSR fell 3/2% YoY/QoQ. Lower energy cost and fixed cost controls drove 6% opex reduction and led to unitary EBITDA rebounding 9% YoY to Rs 783/MT, despite lower realisation. A robust 2Q buoyed 1HFY21 EBITDA by 4% YoY to Rs 3.3bn. Working capital reduction further pushed up OCF 3x YoY to Rs 4.2bn. This helped JKLC reduce its gross/ net debt by 6/33% vs Mar'20 to Rs 13.9/6.9bn respectively.
- Outlook:** We increase our standalone EBITDA estimates for FY21/22/23E by 24/8/1% respectively, factoring in better sales tractions and fixed cost controls. JKLC announced a 2.5mn MT integrated, brownfield expansion at its Udaipur Works subsidiary by end FY24E (Capex Rs 14bn). As the Capex would be spread across three years, its leverage ratio would remain comfortable, in our view. We maintain a BUY rating on the stock. Our revised target price of Rs 435/share is SOTP based. We value the standalone cement business at 8x Sep'22E EBITDA and its 73% holding in Udaipur Cement at 20% discount to current market cap.

Standalone Quarterly/Annual Financial summary

YEMar (Rs mn)	2Q FY21	2Q FY20	YoY (%)	1Q FY21	QoQ (%)	FY19	FY20	FY21E	FY22E	FY23E
Sales (mn MT)	2.4	2.1	15.8	1.9	25.2	9.7	9.2	9.8	10.1	10.8
NSR (Rs/MT)	4,381	4,541	(3.5)	4,331	1.1	4,023	4,403	4,270	4,368	4,456
Opex (Rs/MT)	3,598	3,820	(5.8)	3,579	0.5	3,593	3,671	3,595	3,681	3,701
EBITDA (Rs/MT)	783	722	8.5	752	4.0	430	732	674	687	756
Net Sales	10,448	9,355	11.7	8,252	26.6	38,823	40,435	41,813	43,909	47,912
EBITDA	1,867	1,487	25.6	1,433	30.3	4,151	6,724	6,604	6,908	8,125
APAT	806	459	75.5	444	81.4	796	2,554	2,549	2,604	2,880
AEPS (Rs)	6.8	3.9	75.5	3.8	81.4	6.8	21.7	21.7	22.1	24.5
EV/EBITDA (x)						11.1	6.5	6.6	6.5	6.2
EV/MT (Rs bn)						4.21	3.74	3.72	3.84	3.54
P/E (x)						42.1	13.1	13.2	12.9	11.6
RoE (%)						5.4	15.8	13.9	12.5	12.3

Source: Company, HSIE Research, Standalone financials

Estimates revision

Rs Bn	FY21E Old	FY21E Revised	Change %	FY22E Old	FY22E Revised	Change %	FY23E Old	FY23E Revised	Change %
Net Sales	38.61	41.81	8.3	41.33	43.91	6.2	48.45	47.91	(1.1)
EBITDA	5.34	6.60	23.6	6.42	6.91	7.6	8.05	8.12	0.9
APAT	1.70	2.55	50.2	2.27	2.60	14.7	2.83	2.88	1.9
AEPS (Rs)	14.4	21.7	50.2	19.3	22.1	14.7	24.0	24.5	1.9

Source: Company, HSIE Research

BUY

CMP (as on 06 Nov 2020)	Rs 287
Target Price	Rs 435
NIFTY	12,264

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	Rs 400	Rs 435
EBITDA %	FY21E 23.6	FY22E 7.6

KEY STOCK DATA

Bloomberg code	JKLC IN
No. of Shares (mn)	118
MCap (Rs bn) / (\$ mn)	34/456
6m avg traded value (Rs mn)	106
52 Week high / low	Rs 389/180

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	0.6	45.2	(6.3)
Relative (%)	(9.6)	13.0	(9.8)

SHAREHOLDING PATTERN (%)

	Jun-20	Sep-20
Promoters	46.22	46.21
FIs & Local MFs	19.99	23.57
FPIs	10.41	9.92
Public & Others	23.38	20.30
Pledged Shares	-	-

Source : BSE

Pledged shares as % of total shares

Rajesh Ravi

rajesh.ravi@hdfcsec.com
+91-22-6171-7352

Saurabh Dugar

saurabh.dugar@hdfcsec.com
+91-22-6171-7353

Disclosure:

Authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. HSL has no material adverse disciplinary history as on the date of publication of this report. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

Research Analyst or his/her relative or HDFC Securities Ltd. **does not have** any financial interest in the subject company. Also Research Analyst or his relative or HDFC Securities Ltd. or its Associate may have beneficial ownership of 1% or more in the subject company at the end of the month immediately preceding the date of publication of the Research Report. Further Research Analyst or his relative or HDFC Securities Ltd. or its associate **does not have** any material conflict of interest.

HDFC Securities Limited (HSL) is a SEBI Registered Research Analyst having registration no. INH000002475.

Disclaimer:

This report has been prepared by HDFC Securities Ltd and is solely for information of the recipient only. The report must not be used as a singular basis of any investment decision. The views herein are of a general nature and do not consider the risk appetite or the particular circumstances of an individual investor; readers are requested to take professional advice before investing. Nothing in this document should be construed as investment advice. Each recipient of this document should make such investigations as they deem necessary to arrive at an independent evaluation of an investment in securities of the companies referred to in this document (including merits and risks) and should consult their own advisors to determine merits and risks of such investment. The information and opinions contained herein have been compiled or arrived at, based upon information obtained in good faith from sources believed to be reliable. Such information has not been independently verified and no guaranty, representation of warranty, express or implied, is made as to its accuracy, completeness or correctness. All such information and opinions are subject to change without notice. Descriptions of any company or companies or their securities mentioned herein are not intended to be complete. HSL is not obliged to update this report for such changes. HSL has the right to make changes and modifications at any time.

This report is not directed to, or intended for display, downloading, printing, reproducing or for distribution to or use by, any person or entity who is a citizen or resident or located in any locality, state, country or other jurisdiction where such distribution, publication, reproduction, availability or use would be contrary to law or regulation or what would subject HSL or its affiliates to any registration or licensing requirement within such jurisdiction.

If this report is inadvertently sent or has reached any person in such country, especially, United States of America, the same should be ignored and brought to the attention of the sender. This document may not be reproduced, distributed or published in whole or in part, directly or indirectly, for any purposes or in any manner.

Foreign currencies denominated securities, wherever mentioned, are subject to exchange rate fluctuations, which could have an adverse effect on their value or price, or the income derived from them. In addition, investors in securities such as ADRs, the values of which are influenced by foreign currencies effectively assume currency risk. It should not be considered to be taken as an offer to sell or a solicitation to buy any security.

This document is not, and should not, be construed as an offer or solicitation of an offer, to buy or sell any securities or other financial instruments. This report should not be construed as an invitation or solicitation to do business with HSL. HSL may from time to time solicit from, or perform broking, or other services for, any company mentioned in this mail and/or its attachments.

HSL and its affiliated company(ies), their directors and employees may; (a) from time to time, have a long or short position in, and buy or sell the securities of the company(ies) mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company(ies) discussed herein or act as an advisor or lender/borrower to such company(ies) or may have any other potential conflict of interests with respect to any recommendation and other related information and opinions.

HSL, its directors, analysts or employees do not take any responsibility, financial or otherwise, of the losses or the damages sustained due to the investments made or any action taken on basis of this report, including but not restricted to, fluctuation in the prices of shares and bonds, changes in the currency rates, diminution in the NAVs, reduction in the dividend or income, etc.

HSL and other group companies, its directors, associates, employees may have various positions in any of the stocks, securities and financial instruments dealt in the report, or may make sell or purchase or other deals in these securities from time to time or may deal in other securities of the companies / organizations described in this report.

HSL or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

HSL or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction in the normal course of business.

HSL or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither HSL nor Research Analysts have any material conflict of interest at the time of publication of this report. Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions. HSL may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Research entity has not been engaged in market making activity for the subject company. Research analyst has not served as an officer, director or employee of the subject company. We have not received any compensation/benefits from the subject company or third party in connection with the Research Report.

HDFC securities Limited, I Think Techno Campus, Building - B, "Alpha", Office Floor 8, Near Kanjurmarg Station, Opp. Crompton Greaves, Kanjurmarg (East), Mumbai 400 042 Phone: (022) 3075 3400 Fax: (022) 2496 5066 Compliance Officer: Binkle R. Oza Email: complianceofficer@hdfcsec.com Phone: (022) 3045 3600

HDFC Securities Limited, SEBI Reg. No.: NSE, BSE, MSEL, MCX: INZ000186937; AMFI Reg. No. ARN: 13549; PFRDA Reg. No. POP: 11092018; IRDA Corporate Agent License No.: CA0062; SEBI Research Analyst Reg. No.: INH000002475; SEBI Investment Adviser Reg. No.: INA000011538; CIN - U67120MH2000PLC152193

HDFC securities**Institutional Equities**

Unit No. 1602, 16th Floor, Tower A, Peninsula Business Park,
Senapati Bapat Marg, Lower Parel, Mumbai - 400 013

Board: +91-22-6171-7330 www.hdfcsec.com