

J K Lakshmi Cement LimitedCMP Rs. 123.0
BUYInitiating Coverage
BUY

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JK Lakshmi Cement came out with quarterly results yesterday. The company continued its robust performance which was reflected by a rise in Revenues (up 18%) as well as Net Profit (up 76%) over the same quarter of the previous financial year (Q2FY09). The company mainly benefited from increased production, higher price realization on cement sales and lower fuel prices.

Highlights of the Quarter:

- Cement Production increased to 10.25 lac ton in Q2FY10 as compared to 9.61 lac ton in Q2FY09 (up 6.7%). In the same period, Net Realizations increased from Rs 2,906/ton to Rs. 3265/ton. The combined effect of both these factors saw the Net Sales increase from Rs. 293.3mn to Rs. 345.2mn, a rise of 18%
- On the cost front, JKLC continued to benefit from the pet-coke contracted at lower prices in the earlier part of the year. Their average pet-coke cost was about Rs. 4,000/ton as compared to the market rate of Rs. 4,500/ton. Raw materials cost increased marginally due to higher gypsum & fly-ash prices and an increase in royalty on limestone mining levied by the Government
- Blending ratio stood at around 70% (towards PPC) which has been marginally higher than in Q2FY09. However, going ahead, looking at the excess industry capacity scenario, this ratio may decrease as producing more of OPC (as compared to PPC) naturally cuts down production without shutting off the kilns
- Interest cost has reduced considerably in this quarter due to higher gains on treasury income, interest subsidy from the Govt. of Rajasthan and lower negotiated interest rates on term loans from banks
- JKLC had expected to gain from certain tax exemptions in Q1FY10 and hence made lower deferred tax provisioning accordingly. However, the company could not claim these exemptions and compensated by making additional deferred tax provision in the current quarter (Q2FY10) which increased the tax rate to 48%. This is a one time event and the company would be back to the normal tax bracket (34%) from the next quarter

Other Developments:

- The Board has announced an interim dividend of Rs. 2 per share (record date Nov. 11)
- The Board has also announced a split in the face value of equity shares (from Rs 10 per share to Rs 5 per share)
- The company is planning to set up a new 0.55 MTPA Split Grinding unit at a cost of Rs. 80cr to be completed by March 2011. The unit will be set up in Northern India to save on logistics cost and get a stronger hold in the Northern Markets. A similar strategy has been successfully implemented in the Gujarat Market
- Construction of new Thermal (18MW) and Waste Heat Recovery (12MW) power plants is on schedule and expected to be commissioned by March 2011

Going Ahead

- Going ahead, we expect cement prices to fall marginally which would decrease the per ton cement realization of the company
- The current contract for pet-coke (at lower prices) will end by this month and the company will have to enter into new contracts for pet-coke at rates which will be 10-15% higher
- There has been some delay in getting power from V.S. Lignite and the management expects to get this power from December (instead of October). V.S. Lignite had entered into a contract with JKLC to provide 21MW of power annually at Rs. 3.3/unit (as compared to the State Grid Power at Rs. 4.6/unit). This delay will increase the future Power costs as we had expected the company to enjoy cheaper power from V.S. Lignite from this quarter onwards
- Work on opening of kilns has been completed in this quarter which will enable JKLC to go on full steam in the second half (H2FY10) of this financial year and achieve 20-25% higher clinker production compared to the first half of this financial year (H1FY10)

Our View

The share price of JK Lakshmi Cement has fallen in line with the overall markets since release of our report initiating coverage on the company. At the CMP of Rs. 123, the stock trades at 3.3x FY10e EPS of Rs.37.7 & 0.7x FY10e BVPS of Rs.169. On EV/ton basis, the stock trades at \$47/ton. We maintain BUY on JKLC at these attractive valuations.

JK Lakshmi Cement : Q2FY10 Quarterly Analysis

Earnings Statement									
Particulars (Rs Mn)	Q2FY10	Q1FY10	QoQ (%)	Q2FY10	Q2FY09	YoY (%)	H1FY10	H1FY09	YoY (%)
Net Sales	3451.9	3508.1	-1.6%	3451.9	2933.4	17.7%	6960	5627.7	23.7%
Other Operating Income	1.6	1.1	45.5%	1.6	4.1	-61.0%	2.7	7.3	-63.0%
Total Revenue	3453.5	3509.2	-1.6%	3453.5	2937.5	17.6%	6962.7	5635	23.6%
Total Expenditure	2311.1	2315	-0.2%	2311.1	2373.9	-2.6%	4626.1	4423.6	4.6%
EBIDTA	1142.4	1194.2	-4.3%	1142.4	563.6	102.7%	2336.6	1211.4	92.9%
Depreciation	205	205	0.0%	205	187.3	9.5%	410	374.6	9.5%
EBIT	937.4	989.2	-5.2%	937.4	376.3	149.1%	1926.6	836.8	130.2%
Interest Cost	53.6	21.2	152.8%	53.6	108.2	-50.5%	74.8	182.4	-59.0%
Other Income	23.9	36.9	-35.2%	23.9	3.3	624.2%	60.8	5.1	1092.2%
EBT	907.7	1004.9	-9.7%	907.7	271.4	234.5%	1912.6	659.5	190.0%
Tax	436	220	98.2%	436	2.6		656	3.8	
- Current	154.3	170.8	-9.7%	154.3	30.4	407.6%	325.1	74.3	337.6%
- Deferred	436	220	98.2%	436	0		656	0	
- MAT Credit Entitlement	-154.3	-170.8	-9.7%	-154.3	-30.4	407.6%	-325.1	-74.3	337.6%
- FBT	0	0		0	2.6	-100.0%	0	3.8	-100.0%
PAT	471.7	784.9	-39.9%	471.7	268.8	75.5%	1256.6	655.7	91.6%
Ratio Analysis									
EBIDTA (%)	33.1%	34.0%		33.1%	19.2%		33.6%	21.5%	
Tax Rate (%)	48.0%	21.9%		48.0%	1.0%		34.3%	0.6%	
Net Profit (%)	13.7%	22.4%		13.7%	9.2%		18.1%	11.7%	
Power & Fuel / Ton	66.5	64.1		66.5	86.5		65.3	86.4	
Employee / Ton	19.6	18.7		19.6	16.6		19.2	16.8	
Freight / Ton	58.8	55.3		58.8	52.7		57.1	52.4	
Raw Material / Ton	506.0	509.9		506.0	417.7		508.0	420.9	

JK Lakshmi Cement : Financials

Earnings Statement							
Particulars (Rs Mn)	FY 05	FY 06	FY 07	FY 08	FY 09	FY 10(E)	FY 11(E)
Total Revenues	4,867.8	5,824.8	8,438.3	11,076.6	12,245.3	14,878.1	14,929.3
- Growth (%)		19.7%	44.9%	31.3%	10.6%	21.5%	0.3%
Total Expenditure	4,239.0	4,562.5	5,973.6	7,558.6	9,079.0	10,168.8	10,981.1
Operating Profit	628.8	1,262.3	2,464.7	3,518.0	3,166.3	4,709.3	3,948.2
Forex Gain/(Loss)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other Income	144.4	25.7	128.3	61.6	0.7	35.3	22.8
EBITDA	773.2	1,288.0	2,593.0	3,579.6	3,167.0	4,744.6	3,971.0
Depreciation	489.6	530.6	443.4	585.3	691.0	913.2	1,096.5
EBIT	283.6	757.3	2,149.6	2,994.3	2,476.0	3,831.4	2,874.5
Interest	43.9	194.8	361.4	278.5	209.1	355.2	445.7
PBT	239.7	562.5	1,788.2	2,715.8	2,266.9	3,476.1	2,428.8
Tax	(4.3)	8.0	7.1	269.3	481.2	1,181.5	825.6
PAT Before EI	244.0	554.5	1,781.1	2,446.5	1,785.7	2,294.6	1,603.3
- Growth (%)		127.3%	221.2%	37.4%	-27.0%	28.5%	-30.1%
Extra-ordinary Items	15.7	0.0	0.0	(209.8)	0.0	0.0	0.0
PAT	259.7	554.5	1,781.1	2,236.7	1,785.7	2,294.6	1,603.3

Ratio Analysis							
Particulars	FY 05	FY 06	FY 07	FY 08	FY 09	FY 10(E)	FY 11(E)
OPM (%)	12.9%	21.7%	29.2%	31.8%	25.9%	31.7%	26.4%
EBITDA (%)	15.9%	22.1%	30.7%	32.3%	25.9%	31.9%	26.6%
PBIT (%)	5.8%	13.0%	25.5%	27.0%	20.2%	25.8%	19.3%
PAT (%)	5.3%	9.5%	21.1%	20.2%	14.6%	15.4%	10.7%
Interest Cover (x)	6.5	3.9	5.9	10.8	11.8	10.8	6.4
EPS (Rs.)	4.7	11.1	31.2	36.6	29.2	37.5	26.2
P/E (x)	26.2	11.0	3.9	3.4	4.2	3.3	4.7
P/BV (x)	4.2	2.9	1.7	1.2	0.9	0.73	0.65
BVPS (Rs.)	29.5	42.9	72.5	105.0	135.9	168.3	189.3
Market Cap (Rs. Mn.)	6,803.2	6,120.0	7,020.5	7,525.1	7,525.1	7,525.1	7,525.1
M Cap/Sales (x)	1.4	1.1	0.8	0.7	0.6	0.5	0.5
EV (Rs. Mn.)	11,836.3	12,914.0	12,227.9	10,996.2	10,395.1	9,760.7	12,484.7
EV/EBITDA (x)	15.3	10.0	4.7	3.1	3.3	2.1	3.1
EV/Sales (x)	2.4	2.2	1.4	1.0	0.8	0.7	0.8
ROCE (%)	3.3%	8.4%	18.8%	22.2%	16.1%	22.1%	15.5%
RONW (%)	14.9%	26.0%	43.0%	38.1%	21.5%	22.3%	13.8%
Debt/Equity Ratio (x)	4.3	3.2	1.8	1.1	0.8	0.7	0.6
Inventory T/o Days	24.6	23.0	24.1	20.5	19.7	19.3	21.7
Debtors T/o Days	12.2	13.2	7.7	6.1	7.0	6.6	7.3
Advances T/o Days	25.6	77.9	50.9	53.3	64.4	32.6	32.9
Creditors T/o Days	17.4	15.6	19.8	22.3	26.3	22.1	25.6
Working Cap T/o Days	37.8	88.7	97.4	136.2	110.3	115.7	55.0
Fixed Assets T/o (Gross)	0.8	0.8	1.0	1.2	1.1	1.1	0.9
DPS (Rs.)	0.0	0.0	1.0	2.5	4.0	4.0	4.0
Dividend Payout (%)	0.0%	0.0%	3.2%	6.8%	13.7%	10.7%	15.3%
Dividend Yield (%)	0.0%	0.0%	0.8%	2.0%	3.3%	3.3%	3.3%

JK Lakshmi Cement : Financials

Balance Sheet							
Particulars (Rs Mn)	FY 05	FY 06	FY 07	FY 08	FY 09	FY 10(E)	FY 11(E)
Equity Capital	552.9	497.7	570.9	611.9	611.9	611.9	611.9
Reserves	1,081.2	1,635.5	3,568.3	5,813.5	7,701.6	9,682.4	10,971.9
Shareholders Funds	1,634.0	2,133.2	4,139.2	6,425.4	8,313.5	10,294.3	11,583.8
Borrowed Funds	6,975.3	6,917.0	7,296.4	7,078.4	7,026.7	7,022.8	7,018.2
Deferred Tax Liability	(380.4)	(380.4)	(380.4)	(120.0)	351.0	1,011.1	1,350.9
Total Liabilities	8,228.9	8,669.7	11,055.2	13,383.8	15,691.2	18,328.2	19,952.9
Fixed Assets	5,999.9	7,252.9	8,221.3	9,119.7	11,101.5	13,136.7	17,434.8
Investments	1,716.0	1.1	581.1	130.3	889.1	474.4	267.1
Current Assets							
Inventory	327.5	366.4	558.2	621.8	660.2	787.6	887.4
Sundry Debtors	162.4	209.9	177.6	186.1	233.2	270.5	298.6
Loans & Advances	342.0	1,242.9	1,176.9	1,618.9	2,159.4	1,326.9	1,344.7
Cash & Bank Balance	226.2	121.9	1,507.9	3,477.0	3,267.5	4,312.7	1,791.6
Current Liabilities							
Sundry Creditors	232.3	248.6	458.8	675.6	881.2	902.1	1,046.5
Provisions	53.0	17.7	106.1	437.8	906.4	378.6	424.7
Other Current Liabilities	269	259	603	657	832	700	600
Net Current Assets	503.7	1,415.7	2,252.8	4,133.8	3,700.6	4,717.0	2,251.1
Miscellaneous Expenditure	9.3	0.0	0.0	0.0	0.0	0.0	0.0
Total Assets	8,228.9	8,669.7	11,055.2	13,383.8	15,691.2	18,328.2	19,952.9

Cash Flow							
Particulars (Rs Mn)	FY 05	FY 06	FY 07	FY 08	FY 09	FY 10(E)	FY 11(E)
Opening Cash & Bank	106.3	226.2	121.9	1,507.9	3,477.0	3,267.5	4,312.7
Profit After Tax	259.7	554.5	1,781.1	2,236.7	1,785.7	2,294.6	1,603.3
Investment Income	(70.3)	(55.1)	(101.0)	(306.9)	(334.9)	(264.9)	(162.4)
Interest Paid	72.0	223.1	438.9	539.6	495.1	595.2	595.7
Miscellaneous Exp W/Off	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Depreciation	489.6	530.6	443.4	585.3	691.0	913.2	1,096.5
Deferred Taxation	(4.3)	0.0	0.0	(8.6)	215.3	660.1	339.8
Others	(179.0)	308.9	46.9	193.0	(66.0)	525.4	0.0
Change in Working Cap	(8.6)	(994.8)	431.2	301.2	358.7	(496.6)	(55.2)
CF - Operating Activities	559.2	567.3	3,040.4	3,540.3	3,144.9	4,227.0	3,417.7
Change in Fixed Assets	10.5	(1,773.6)	(1,536.1)	(1,580.9)	(2,238.0)	(2,975.9)	(5,422.0)
Change in Investments	28.6	1,718.1	(558.1)	495.9	(749.0)	414.7	207.4
Investment Income	39.0	28.4	77.6	261.2	286.9	264.9	162.4
CF - Investing Activities	78.1	(27.1)	(2,016.6)	(823.8)	(2,700.1)	(2,296.3)	(5,052.2)
Increase in Equity	0.0	(363.1)	421.6	358.4	0.0	0.0	0.0
Changes in Borrowings	(445.4)	(58.3)	379.5	(218.0)	(51.7)	(3.9)	(4.5)
Interest Paid	(72.0)	(223.1)	(438.9)	(749.4)	(495.1)	(595.2)	(595.7)
Dividend Paid	0.0	0.0	0.0	(138.4)	(107.4)	(286.3)	(286.3)
CF - Financing Activities	(517.4)	(644.6)	362.2	(747.4)	(654.2)	(885.5)	(886.6)
Net Change in Cash	119.8	(104.3)	1,386.0	1,969.1	(209.4)	1,045.2	(2,521.2)
Closing Cash & Bank Balance	226.2	121.9	1,507.9	3,477.0	3,267.5	4,312.7	1,791.6

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Disclosure of Interest Statement

1. Analyst Ownership of the scrip
2. PPFAS ownership of the scrip
3. PMS ownership of the scrip

JK Lakshmi Cement Limited

YES
NO
NO

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