



# JK Lakshmi Cement

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CMP (Rs)	Target Price (Rs)	Potential Upside (%)	52 Week H/L (Rs)	Mkt Cap (Rs mn)
330	432	30.9%	396 / 250	38861

## Key Highlights:

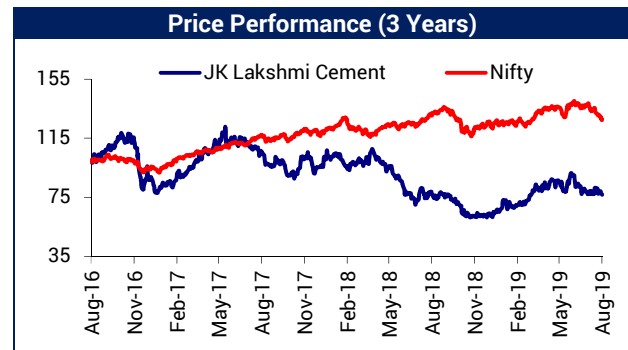
- The management highlighted that its primary focus was on deleveraging its balance sheet through improving operational cash flows in FY20. It has guided for 8-10% cement volume growth in FY20 led by lower clinker sales and ramp-up of Odisha grinding unit. However, given weak demand we estimate 5-3% volume growth in FY20-21E.
- The company highlighted that the demand supply position of the industry will be favorable in 2019 with not many new capacity additions in the competing regions and strong demand post the continuation of the government.
- The 20MW captive power plant at Durg and 0.8 mtpa grinding unit at Odisha should commission in 2QFY20E. We note the commissioning of the grinding unit in Odisha will aid profitability led by (1) lower freight costs, and (2) higher pricing in coastal Odisha.
- Udaipur cement works is ramping up fast. The company expects it to be PBT positive this year and expects to achieve a profitability of Rs.400-Rs.500/ton.
- JKLC's net debt/EBITDA reduced from 4.2X in FY19 to 3.8X in FY19. With limited capex and strong prices, we see further deleveraging to 1.6X by FY20E. The company has given a capex guidance of Rs.0.3 bn for FY20. However, with clinker constraints, growth capex should resume from FY21E.
- Our positive view on the stock is underpinned by (1) deleveraging over the next two years aided by limited sustenance capex, (2) earnings improvement at Udaipur Cement Works, which is loss making now, and (3) large presence in North which has high industry utilization rates.
- Our fair value of Rs.432/share is based on 6X FY2021E EBITDA
- **1QFY20 Result Preview** - We expect (1) cement volumes to decline by 2% YoY to 2.3 mn tons (-24% QoQ) on a high base (+28% growth in 4QFY18), and (2) realizations to increase by 9.5% QoQ led by higher prices in North markets (prices increased by 16% QoQ in the North). We estimate EBITDA/ton to increase by 46% QoQ to Rs.650/ton (+52% YoY) led by higher realizations, We expect costs to be higher on account of lower volumes due to cyclones in Orissa and higher start-up costs of stabilizing operations in the affected markets.

Financials (Rs mn)*	FY19	FY20E	FY21E
Sales	43,163	48,202	51,080
Growth (%)	15.2	11.7	6.0
EBITDA	4,537	8,023	8,835
EBITDA margin (%)	10.5	16.6	17.3
PBT	453	4,252	5,410
Reported net income	514	3,089	3,909
EPS (Rs)	4.1	26.2	33.2
Growth (%)	(28.0)	539.0	26.7
P/E (x)	80.5	12.6	9.9
BV (Rs/share)	126	150	181
Net Debt / Equity (x)	1.2	0.7	0.4
ROE (%)	3.3	19.0	20.1
ROCE (%)	6.2	13.0	14.5
Free cash flow	379	4,311	4,040

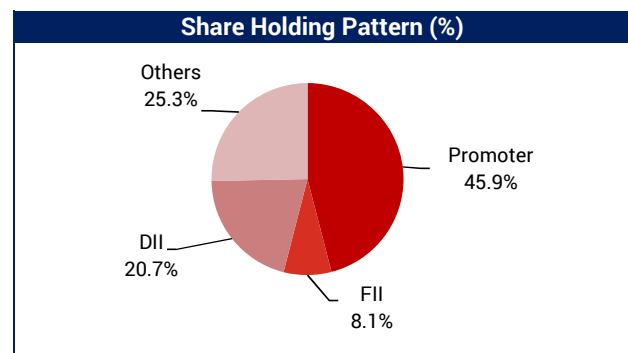
Source: Kotak Institutional Equities \*Consolidated

Financials (Rs mn)*	Q4-FY18	Q4-FY19	% Chg
Revenues	8,970	11,725	30.7
EBITDA	1,013	1,312	29.5
EBITDA Margin (%)	11.3%	11.2%	
PAT	338	433	28.0
PAT Margin (%)	3.8%	3.7%	
EPS (Rs)	2.9	3.7	28.0

Source: Kotak Institutional Equities \*Standalone



Source: Bloomberg



Source: Bloomberg

This one pager on the company is extracted from last KIE update dated May 25, 2019 and 1QFY20 strategy and preview report dated 5 July 2019. It does not contain events beyond that date. We take no obligation to update the KIE recommendations. While source of all other information is taken from Kotak Institutional Equities, the price performance and shareholding pattern chart is inputted by Kotak PCG research team (with source as Bloomberg). It is advisable to read the full KIE report before taking any investment decision on the above company recommendation.

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- ADD** – We expect the stock to deliver 5% - 15% returns over the next 12 months
- REDUCE** – We expect the stock to deliver -5% - +5% returns over the next 12 months
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