

## Commendable performance in otherwise subdued environment

|                 |        |
|-----------------|--------|
| CMP:            | Rs 68  |
| Target Price:   | Rs. 76 |
| Recommendation: | HOLD   |

### Stock Info

|            |         |
|------------|---------|
| BSE Group  | B       |
| BSE Code   | 500410  |
| NSE Symbol | ACC     |
| Bloomberg  | JKLC.IN |
| Reuters    | JKLC.BO |
| BSE Sensex | 20865   |
| NSE Nifty  | 6203    |

### Market Info

|                              |        |
|------------------------------|--------|
| Market Capital               | ₹800cr |
| Equity Capital               | ₹ 59cr |
| Avg. Trading Vol. (NSE Qtly) | 47769  |
| 52 Wk High/ Low              | 180/49 |
| Face Value                   | 5      |

### Shareholding Pattern (%) (30th Sept 2013)

|                       |      |
|-----------------------|------|
| Promoters             | 46.0 |
| Domestic Institutions | 13.1 |
| Foreign Institutions  | 6.2  |
| Non Promoters Corp.   | 8.0  |
| Public & Others       | 26.7 |
| Govt. Holdings        | -    |

October 23, 2013

JK Lakshmi Cement (JKLC) reported good set of number as compared to estimates aided by strong volume growth and efficiency improvement measures. Combined cement volumes (Cement + clinker) during the quarter rose 6.5% yoy and 5.7% qoq to 1.289mn tonnes. Notably higher volume was on account of higher clinker sale which stood at 0.174mn tonnes compared to 0.09mn tonnes during 2QFY13. Excluding clinker sales, grey cement volumes (as per our calculations) declined 0.45% yoy and 1.33% qoq.

Blended realisations owing to higher share of clinker dropped 20% yoy and 7% qoq to Rs 3234 per tonne. Consequently, JKLC reported 9% yoy decline in net sales at Rs 449cr. Operating costs on per tonne basis declined yoy and qoq to Rs 3046 per tonne. However, decrease in realisation resulted in EBITDA per tonne to drop by 52% yoy and 19% qoq to Rs 504 per tonne. Effectively EBITDA margins dropped 286bps qoq and 1040bps yoy to 12.5%.

### Concall Updates:

**Demand:** Demand continues to remain tepid in JKLC's operating regions i.e North India and Gujarat. In Gujarat, where company sells 30% of its cement, has witnessed de-growth of ~15%. Demand in Rajasthan is holding up at 6-7% and we believe this could be on account of pre election spending as state goes into assembly election in December. On weighted basis management has said there has been de-growth of 1-2% in Northern Markets.

**Guidance:** Management pegged FY15E volume growth at 7-8%. We see down side risk to the same if much anticipated demand push through pre-election spending does not get materialized.

**Capex:** JKLC is on course to reach 11.5mtpa capacity. 2.7mtpa Durg project is expected to come on stream by 3QFY15 and Jhajjar-II grinding unit (0.55mtpa) is expected to get commissioned by March-14. Company has already spent Rs 941cr on Durg project and Rs 120cr on Jhajjar unit. Company would be spending another Rs. 250cr on Durg project in FY14 and balance it will spend in FY15. Effectively company is expected to spend Rs 550-560cr each in FY14E and FY15E.

### Financials:

| (Rs Cr)     | FY12  | FY13 | FY14E | FY15E |
|-------------|-------|------|-------|-------|
| Net Revenue | 1718  | 2055 | 1930  | 2118  |
| EBITDA      | 336   | 429  | 297   | 352   |
| EBITDA%     | 19.5  | 20.9 | 15.4  | 16.6  |
| EBITDA/t    | 681   | 810  | 572   | 652   |
| Adj PAT     | 135   | 187  | 85    | 102   |
| Adj EPS     | 11    | 16   | 7     | 9     |
| EPS Growth  | 128.4 | 43.7 | -54.4 | 20.1  |
| RONW (%)    | 11    | 15   | 6     | 7     |
| P/E (x)     | 6.2   | 4.3  | 9.4   | 7.9   |



## 2QFY14 Results (Standalone)

| Rs in Crore                 | 2QFY14 | 2QFY13 | YOY (%) | 1QFY14 | QoQ (%) |
|-----------------------------|--------|--------|---------|--------|---------|
| Net Sales                   | 449    | 491    | (8.7)   | 457    | -1.8    |
| Expenditure                 | 393    | 379    | 3.7     | 387    | -4      |
| EBITDA                      | 56     | 113    | (50.2)  | 70     | -3      |
| EBITDA Margins (%)          | 13     | 23     | -       | 15     | -       |
| Other Income                | 9      | 15     | (44.4)  | 3      | -38     |
| Interest                    | 19.2   | 22     | (14.0)  | 20.0   | 65      |
| Depreciation                | 34.0   | 32     | 4.6     | 35.5   | 2       |
| Exceptional Items (Loss)    | 0      | 0      | -       | 0      | -       |
| PBT after exceptional items | 12     | 74     | (84.1)  | 18     | 2       |
| Tax                         | 1      | 23     | (93.8)  | 2      | -       |
| Tax rate (%)                | 12%    | 31%    | -       | 12%    | -       |
| PAT after extraordinary     | 10.3   | 50.9   | (79.8)  | 15.7   | -41     |
| Net Profit Margin (%)       | 2%     | 10%    | -       | 3%     | -       |

**Valuation:**

Despite posting better results as compared to estimates, we foresee host of challenges in front of JKLC before it could enter high earnings growth phase. We believe company could continue to face headwinds in the form of weak pricing and demand scenario. Notably, in recent few quarters Rajasthan (23% of volumes) could hold up overall volumes, however, going forward there remains a risk of decline in volumes post assembly election as was the case seen in Gujarat, where demand weakened considerably post assembly election there. In addition, further delay in expansion projects; Durg in particular, could act as a negative trigger for the stock. **We have valued stock on EV/EBITDA(x) of 5.5x its FY15 estimates and have arrived at a fair value of Rs 76 per share. Recommend Hold rating on the stock.**



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### Stock Rating Scale

|            | <b>Absolute Return</b> |
|------------|------------------------|
| BUY        | >20                    |
| ACCUMULATE | 12-20                  |
| HOLD       | 5-12                   |
| NEUTRAL    | 0-5                    |
| REDUCE     | <0                     |

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