

JK Lakshmi Cement (JKLC IN)

Earnings at risk with delays in capex

INDIA | CEMENT | Quarterly Update

6 November 2015

Top takeaways from Q2FY16

- ✘ Volumes in line, but realisations were low (+1% qoq vs. expected +4% qoq).
- ✘ Volume growth driven by east India debut. This unit operates at ~55% utilisations.
- ✘ Capex delayed. Will impact FY17 earnings.
- ✓ Costs remain in control, but price support is necessary to drive earnings.
- ✓ Do not see concerns in costing. Cost curve likely to get better as utilisation improves for the east India unit.
- ✘ Downgrade to Sell; we see earnings momentum missing in the medium term with delay in capex. Revise price target to Rs 305 (from Rs 483) implying EV/tonne of ~US\$ 70.

Key highlights: JKLC's Q2 performance was disappointing and below our estimates largely due to lower-than-expected realisation. We do not see any immediate material improvement in realisation and believe earnings will remain compressed near term due to this. Over the medium term also, we do not see a material earnings triggers, as most of the capex commissioning is now delayed to H2FY17. Further delays cannot be ruled out. However, once capex is complete, JKLC will be an attractive bet.

Conference call takeaways

- ✘ Capacity utilisation remains low. Sense is that Q3 utilisations will not differ materially.
- ✓ Expects to see material improvement in demand in H1CY16. This may help prices to recover.
- ✓ Costs remain under control. Improvement in utilisation at its east Indian unit will give further stability to its cost curve.
- ✓ Surat grinding-unit timeline remains firm – March 2016 commissioning.
- ✘ Does not expect commissioning of its Odisha grinding unit until five quarters from now.
- ✘ Udaipur Cement Works refurbishment delayed by two quarters. We sense that further delays cannot be ruled out.
- ✘ Volume growth may continue to remain high, but earnings trigger from this volume growth will be put off to H2FY17 and beyond.

Outlook and valuation

We downgrade JKLC to sell with a price target of Rs 305 (-15%) as we see near-to-medium-term concerns with delays in capex execution. Our price target implies an EV/tonne valuation of ~US\$70. We also expect further earnings downgrades for JKLC in the medium term due to poor pricing and capex execution delays.

Sell (Downgrade)

CMP RS 354 / TARGET RS 305 (-15%)

COMPANY DATA

O/S SHARES (MN) :	118
MARKET CAP (RSBN) :	43.6
MARKET CAP (USDBN) :	0.7
52 - WK HI/LO (RS) :	430 / 302
LIQUIDITY 3M (USDMN) :	0.9
PAR VALUE (RS) :	5

SHARE HOLDING PATTERN, %

	Jun 15	Mar 15	Dec 14
PROMOTERS :	45.9	45.9	45.9
FII / NRI :	14.1	12.9	14.1
FI / MF :	18.2	17.9	16.8
NON PRO :	7.9	8.6	8.8
PUBLIC & OTHERS :	14.4	15.2	14.9

Key Financials

Rs mn	FY15	FY16E	FY16E
Net Sales	23,148	25,754	32,671
EBIDTA	3,518	4,009	5,450
Net Profit	1,666	581	1,495
EPS, Rs	14.2	4.9	12.7
PER, x	25.0	71.7	27.9
EV/EBIDTA, x	16.9	16.1	11.3
P/BV, x	3.1	3.0	2.8
ROE, %	12.4	4.2	10.1
Debt/Equity (%)	133.8	166.5	136.2

CHANGE IN ESTIMATES

Rs bn	Revised Est.		% Revision	
	FY16E	FY17E	FY16E	FY17E
Revenue	25.8	32.7	-5%	-5%
EBITDA	4.0	5.5	-24%	-23%
Core PAT	0.8	1.9	-56%	-43%
EPS (Rs)	7.1	15.8	-56%	-43%

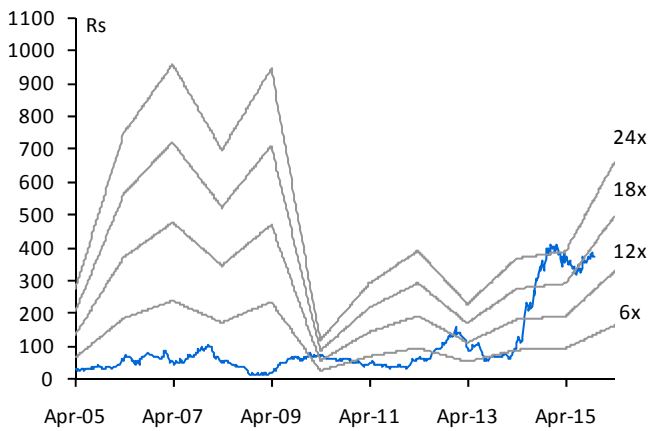
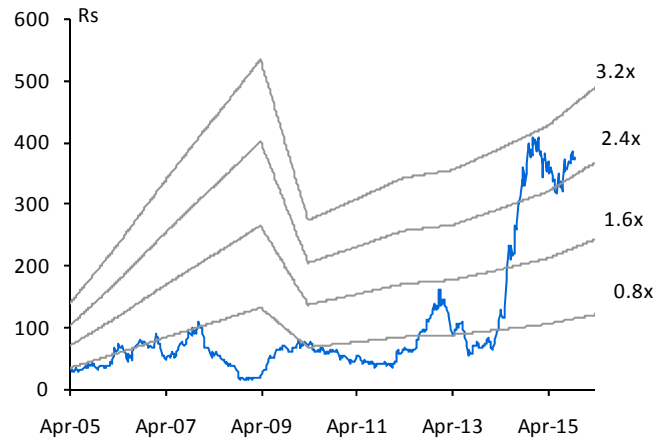
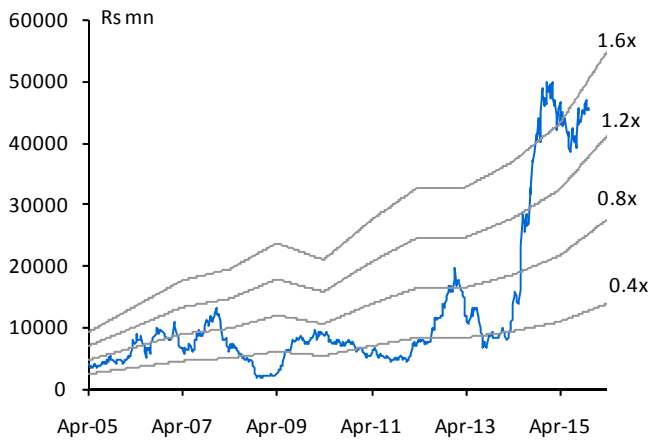
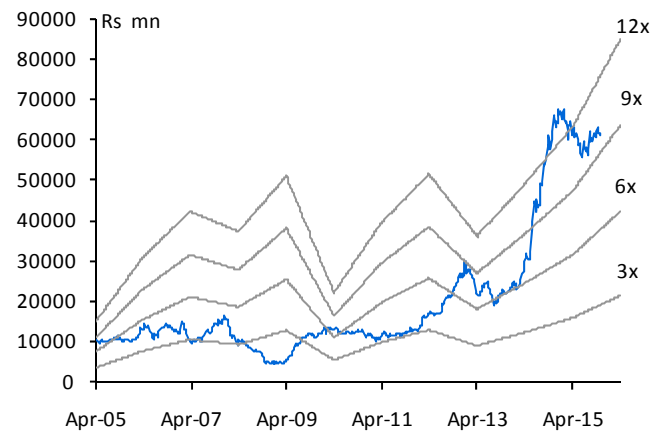
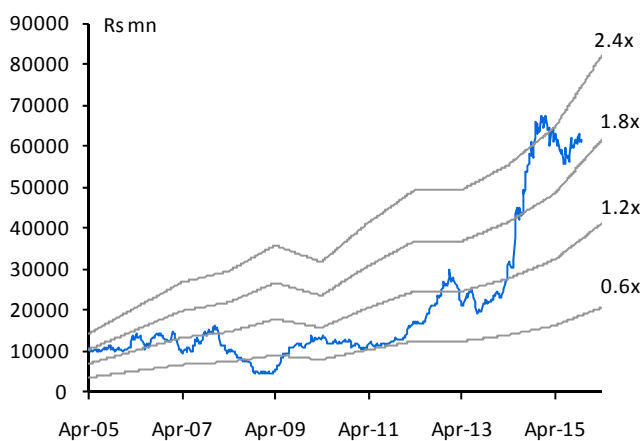
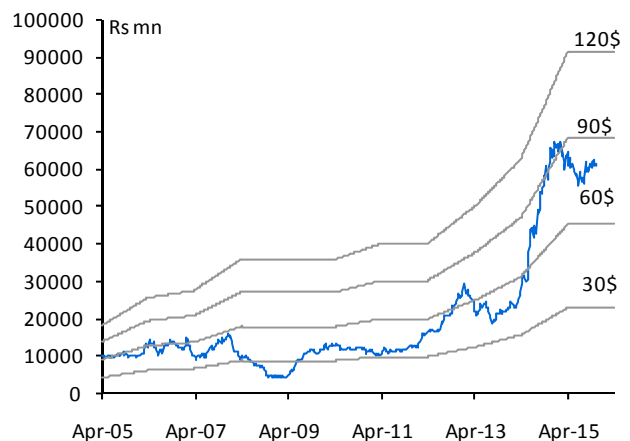
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(Rs bn)	Q2FY16	Q2FY15	YoY growth %	Q1FY16	qoq growth %	vs. expectations %	Comments
Revenue	6,457	5,726	13%	5,908	9%	-3%	
Volumes (mnt)	1.75	1.46	20%	1.62	8%	0%	Volumes remain in line. Volume growth will continue to look high driven by east India greenfield.
Blended Realisations (Rs/tonne)	3,686	3,922	-6%	3,655	1%	-3%	Improvement in realisations is a must for JKLC to protect further valuation de-rating
Total Expenditure	5,791	4,834	20%	5,401	7%	-1%	
Expenditure (Rs/tonne)	3,305	3,311	0%	3,341	-1%	-1%	JKLC excellent cost controls will be the near-term savior
EBITDA	667	892	-25%	507	32%	-20%	
EBITDA (Rs/tonne)	380	611	-38%	314	21%	-20%	
EBITDA Margin	10.3%	15.6%		15.4%		-18%	
Depreciation	417	285	46%	392	6%	6%	
Interest Cost	478	218	119%	453	5%	5%	
Other Income	60	12	400%	44	36%	36%	
PBT	(168)	400	-142%	(295)	-43%		
Tax	(72)	44	-261%	(114)	-37%		
PAT	(97)	356	-127%	(180)	-46%		
EPS, Rs	(1.3)	2.6	-149%	(2.0)	-36%		

Q2FY16 Results

(Rs mn)	2QFY15	3QFY15	4QFY15	1QFY16	2QFY16
Net Sales	5,726	5,559	5,782	5,908	6,457
Volume	1.46	1.50	1.53	1.62	1.75
Realisation Per Tonne	3,922	3,704	3,774	3,655	3,686
Total Expenditure	4,834	4,805	5,067	5,401	5,791
Raw Material Consumed	974	1,014	1,016	1,128	1,161
Purchase of Traded Goods	570	545	563	473	571
Stock Adjustment	13	(114)	(199)	(76)	142
Employee Expenses	346	349	392	489	496
Power, Oil & Fuel	1,158	1,268	1,304	1,357	1,312
Selling & Administrative Expenses	1,253	1,267	1,382	1,495	1,522
Other Expenses	521	476	610	535	587
EBITDA	892	754	715	507	667
EBITDA/Tonne	611	502	466	314	380
Margin %	15.6	13.6	12.4	8.6	10.3
Other Income	12	67	178	44	60
Depreciation	285	281	270	392	417
EBIT	618	540	622	158	310
Interest	218	218	256	453	478
PBT	400	322	367	(295)	(168)
Total Tax	44	37	(12)	(114)	(72)
Reported Profit After Tax	356	285	378	(180)	(97)
EPS	2.6	1.6	0.5	(2.0)	(1.3)

Source: Company, PhillipCapital India Research

One-year forward band charts
P/BV

P/BV

Mkt Cap/sales

EV/EBITDA

EV/sales

EV/tonne


Source: Company, PhillipCapital India Research

Financials

Income Statement

Y/E Mar, Rs mn	FY14	FY15	FY16e	FY17e
Net sales	20,566	23,148	25,754	32,671
Growth, %	0	13	11	27
Total income	20,566	23,148	25,754	32,671
Raw material expenses	-3,653	-4,043	-4,628	-5,804
Employee expenses	-1,230	-1,585	-1,817	-2,284
Other Operating expenses	-12,665	-14,001	-15,300	-19,132
EBITDA (Core)	3,018	3,518	4,009	5,450
Growth, %	(29.6)	16.6	14.0	35.9
Margin, %	14.7	15.2	15.6	16.7
Depreciation	-1,353	-1,146	-2,253	-2,456
EBIT	1,665	2,372	1,756	2,994
Growth, %	(40.5)	42.4	(26.0)	70.5
Margin, %	8.1	10.2	6.8	9.2
Interest paid	-772	-945	-1,836	-1,617
Other Non-Operating Income	453	280	763	382
Pre-tax profit	1,347	1,707	683	1,758
Tax provided	-224	-41	-102	-264
Profit after tax	1,123	1,666	581	1,495
Net Profit	1,123	1,666	581	1,495
Growth, %	(41.3)	48.3	(65.1)	157.4
Net Profit (adjusted)	1,123	1,666	581	1,495
Unadj. shares (m)	118	118	118	118
Wtd avg shares (m)	118	118	118	118

Balance Sheet

Y/E Mar, Rs mn	FY14	FY15	FY16e	FY17e
Cash & bank	352	189	189	189
Debtors	555	571	604	767
Inventory	1,024	2,277	2,409	3,056
Loans & advances	3,764	3,543	3,748	4,755
Total current assets	5,695	6,579	6,950	8,766
Investments	4,070	3,308	1,654	827
Gross fixed assets	33,415	44,474	53,415	55,415
Less: Depreciation	-13,515	-14,661	-16,914	-19,371
Add: Capital WIP	6,000	2,000	1,000	500
Net fixed assets	25,899	31,813	37,500	36,544
Total assets	35,665	41,700	46,104	46,136
Current liabilities	7,372	10,989	11,893	13,843
Provisions	415	485	513	650
Total current liabilities	7,786	11,474	12,406	14,493
Non-current liabilities	14,846	16,727	19,407	16,002
Total liabilities	22,632	28,200	31,813	30,495
Paid-up capital	589	589	588	588
Reserves & surplus	12,444	12,911	13,703	15,053
Shareholders' equity	13,032	13,500	14,291	15,641
Total equity & liabilities	35,665	41,700	46,104	46,136

Source: Company, PhillipCapital India Research Estimates

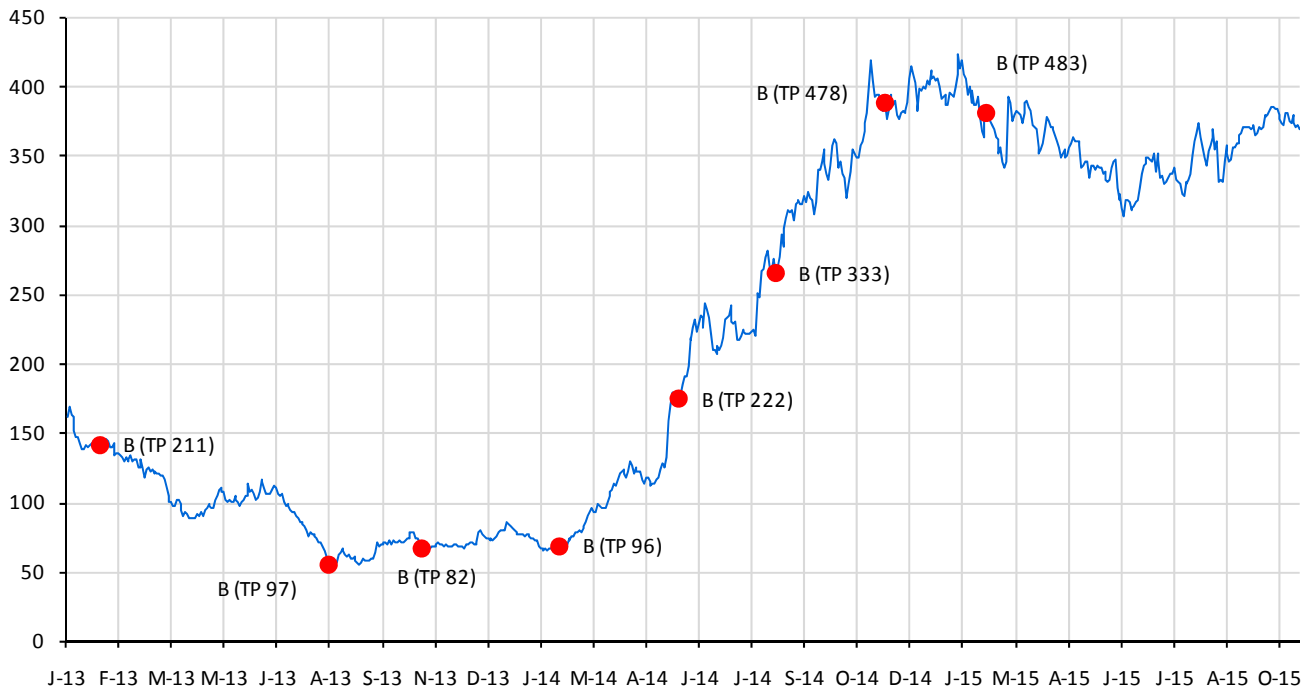
Cash Flow

Y/E Mar, Rs mn	FY14	FY15	FY16e	FY17e
Pre-tax profit	1,347	1,707	683	1,758
Depreciation	1,353	1,146	2,253	2,456
Chg in working capital	1,700	610	629	-128
Total tax paid	-132	-104	-102	-264
Cash flow from operating activities	4,268	3,359	3,462	3,823
Capital expenditure	-6,016	-6,873	-8,127	-1,500
Chg in investments	11	2,035	1,018	509
Other investing activities	-406	-317	-692	0
Cash flow from investing activities	-6,410	-5,155	-7,801	-991
Free cash flow	-2,142	-1,797	-4,339	2,832
Equity raised/(repaid)	0	0	0	0
Debt raised/(repaid)	2,643	1,943	4,510	-2,393
Dividend (incl. tax)	-276	-309	-171	-439
Cash flow from financing activities	2,368	1,633	4,339	-2,832
Net chg in cash	225	-163	0	0

Valuation Ratios

	FY14	FY15	FY16e	FY17e
Per Share data				
EPS (INR)	9.5	14.2	4.9	12.7
Growth, %	(41.3)	48.3	(65.1)	157.4
Book NAV/share (INR)	110.7	113.7	117.2	126.1
FDEPS (INR)	9.5	14.2	4.9	12.7
CEPS (INR)	21.0	23.9	24.1	33.6
CFPS (INR)	42.8	13.5	18.3	32.2
DPS (INR)	2.0	2.2	1.2	3.2
Return ratios				
Return on assets (%)	4.8	6.0	4.1	5.5
Return on equity (%)	8.6	12.4	4.2	10.1
Return on capital employed (%)	6.1	7.7	5.3	7.2
Turnover ratios				
Asset turnover (x)	0.9	0.8	0.8	0.9
Sales/Total assets (x)	0.6	0.6	0.6	0.7
Sales/Net FA (x)	0.9	0.8	0.7	0.9
Working capital/Sales (x)	(0.1)	(0.1)	(0.1)	(0.1)
Working capital days	(36.0)	(40.5)	(44.5)	(32.1)
Liquidity ratios				
Current ratio (x)	0.8	0.7	0.7	0.8
Quick ratio (x)	0.6	0.5	0.5	0.5
Interest cover (x)	2.2	2.5	1.0	1.9
Dividend cover (x)	4.8	6.3	4.0	
Total debt/Equity (%)	111.0	133.8	166.5	136.2
Net debt/Equity (%)	77.0	117.1	157.7	131.5
Valuation				
PER (x)	37.1	25.0	71.7	27.9
PEG (x) - y-o-y growth	(0.9)	0.5	(1.1)	0.2
Price/Book (x)	3.2	3.1	3.0	2.8
EV/Net sales (x)	2.7	2.6	2.5	1.9
EV/EBITDA (x)	18.5	16.9	16.1	11.3
EV/EBIT (x)	33.5	25.0	36.7	20.6

Stock Price, Price Target and Rating History



Rating Methodology

We rate stock on absolute return basis. Our target price for the stocks has an investment horizon of one year.

Rating	Criteria	Definition
BUY	$\geq +15\%$	Target price is equal to or more than 15% of current market price
NEUTRAL	$-15\% > \text{to} < +15\%$	Target price is less than +15% but more than -15%
SELL	$\leq -15\%$	Target price is less than or equal to -15%.

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