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DEMOCRATIZING WEALTH CREATION

UPSTREAM PICK

April 2021

THINK DIFFERENT PROFIT MORE

Company Name	:	**JK LAKSHMI CEMENT LTD.**
BSE Code	:	**500380**
Time Duration	:	**2 years**
CMP	:	**₹438.65 (as on 01 Apr., 2021)**
Target Price	:	**₹614**

Our upstream pick for the month of April is JK Lakshmi Cement Ltd. The company is primarily engaged in the business of cement manufacturing. The company has a diverse product portfolio catering to the varied requirements of infrastructure construction. It accounts for 3.8 per cent of the market share in the cement industry and also, has a strong foothold in the states of Rajasthan, Gujarat, Delhi, Haryana, Uttar Pradesh, Uttaranchal, Punjab, Jammu & Kashmir, Himachal Pradesh and Maharashtra. It caters to various construction requirements by providing 3 major cement grades-Cement 53 blended, 53 grade OPC and 43 grade OPC. It also has a variety of value-added products such as JK Lakshmi Power Mix- Ready Mix Concrete (RMC), JK LakshmiPlast- Gypsum Plaster and JK SmartBlox- Autoclaved Aerated Concrete Blocks (AAC blocks). Along with an annual turnover of over Rs 4,000 crore and a combined production capacity of 13.3 million MT per annum, the company has a network of 1,500 dealers, spread across various states mainly in the north and west India, which contribute to 75 per cent of the revenue to the company. It also has a wide network of over 400 cement dumps and more than 7,000 channel partners. Established in the year 1982, JK Lakshmi Cement is a renowned and well-established name in the Indian cement industry and has partnerships with India's leading companies namely L&T, Reliance, NTPC and Essar.

Deleveraging of the balance sheet-

Over the last 4-5 years, the company has been focussing on deleveraging its balance sheet by continuously reducing its debt. The company has been able to reduce its debt over Rs 700 crore from Rs 2,171 crore as of March 31, 2017 to Rs 1,467 crore as of March 31, 2020. As a result of the reduction in the debt, the debt-equity ratio of the company has come down from 1.57 as of March 31, 2017 to 0.86 as of March 31, 2020. The company has a healthy treasury corpus of about Rs 450 crore, which it continues to judiciously deploy in various tax-efficient debt instruments to generate returns higher than the cost of the funds. This deleveraging of the balance sheet, which would continue in the forthcoming years, would provide the company a firm platform to raise funds to finance its future expansion projects.

Maintained efficiency despite difficult times-

Owing to the elections in the first quarter of FY19-20, followed by an unusually prolonged monsoon stretching into the third quarter and COVID-19 in the last quarter, the cement production during the year FY2019-20 fell by 7 per cent. Despite the lower production, the company maintained its efficiency parameters with respect to fuel and power consumption at an optimum level. The commissioning of the waste heat recovery power plant of 7.5 MW in FY19 and 20 MW thermal power plant in FY20 has enabled the company to contain its power cost at Durg Plant. The company was able to bring down the logistics cost by a significant 11 per cent by optimising dumps & modes of transportation and also encouraging direct dispatches aided by the GST regime.

Focus on expansion & growth-

In order to capture the ever-growing demand for its premium brands like JK Lakshmi PRO+ Cement and Platinum Heavy Duty Cement; and proactively moving close to markets, the company is actively pursuing the strategy of outsourcing of grinding capacities in attractive markets. It now has a wide range of products to cater to all segments while continuing its focus on providing better and superior products to the market through innovation & technology in FY20.

During the financial year 2019-20, the company successfully commissioned a new grinding unit with an annual capacity of 0.8 mil-

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lion tonnes at Cuttack (Odisha) and a 20 MW Captive Thermal Power Plant at Durg (Chhattisgarh). Expansion of waste heat recovery project in Jaykaypuram, Sirohi with an annual capacity of 10 MW is in full swing and is expected to be commissioned by July 2021.

Public sector projects that will boost sectoral growth-

In the Union Budget 2021-22, the government allocated Rs 20,000 crore to set up and capitalise a development financial institution (DFI) for financing infrastructure projects and seven port projects worth more than Rs 2,000 crore via public-private partnership (PPP) mode. The budget also gave a boost to the housing sector & homebuyers and proposed to extend exemption available for the purchase of affordable houses and to provide tax exemption for affordable rental housing projects. The Budget has allocated the highest ever outlay for Ministry of Road Transport & Highways. A large amount of money has been allotted for the ongoing and new economic corridors/expressways. All these projects for infrastructure development aim to boost economic growth and are expected to drive the demand for the cement industry thereby, fuelling the industry's growth. Owing to the increasing demand in various sectors such as housing, commercial construction & industrial construction, the cement industry is expected to reach 550-600 million tonnes per annum (MTPA) by the year 2025. Keeping the above-mentioned point in mind, the future of the cement industry looks bright which makes it a profitable sector to invest in.

Financials-

On the consolidated front, for the recently concluded quarter Q3FY21, the company's net sales stood at Rs 1,259.84 crore, which was a rise of 16.88 per cent on a YoY basis against corresponding quarter Q3FY20's net sales of Rs 1,077.92 crore. The sales rise was caused by a significant volume increase, the company's efforts in optimising the product mix as well as improved efficiency parameters. The PBIDT (excluding OI) for the quarter stood at Rs 228.24 crore, which was a rise of 28.84 per cent over the corresponding quarter that recorded a PBIDT (Excl OI) of Rs 177.14 crore. The PBIDT (excluding OI) margin for the quarter was 18.12 per cent, which witnessed a rise of 169 bps against the corresponding quarter's margin of 16.43 per cent. The expansion in margin came on the back of lower fuel prices and reduced power consumption. Lower fuel prices in the quarter contributed to improving the working. The company's power consumption also decreased to 69 kwh/tonnes in Oct-Dec 2020 from 70 kwh/tonnes in Oct-Dec 2019. PAT for the quarter stood at Rs 118.43 crore, which was an increase of 133 per cent over the corresponding quarter, with a PAT of Rs 50.84 crore. The increased profit can be attributed to the fact that the percentage increase in sales was higher than that of expenditure. Also, the finance costs in this quarter were less by almost Rs 10 crore than the corresponding quarter. The company's sales have been growing at a CAGR of 14.59 per cent for the last five years.

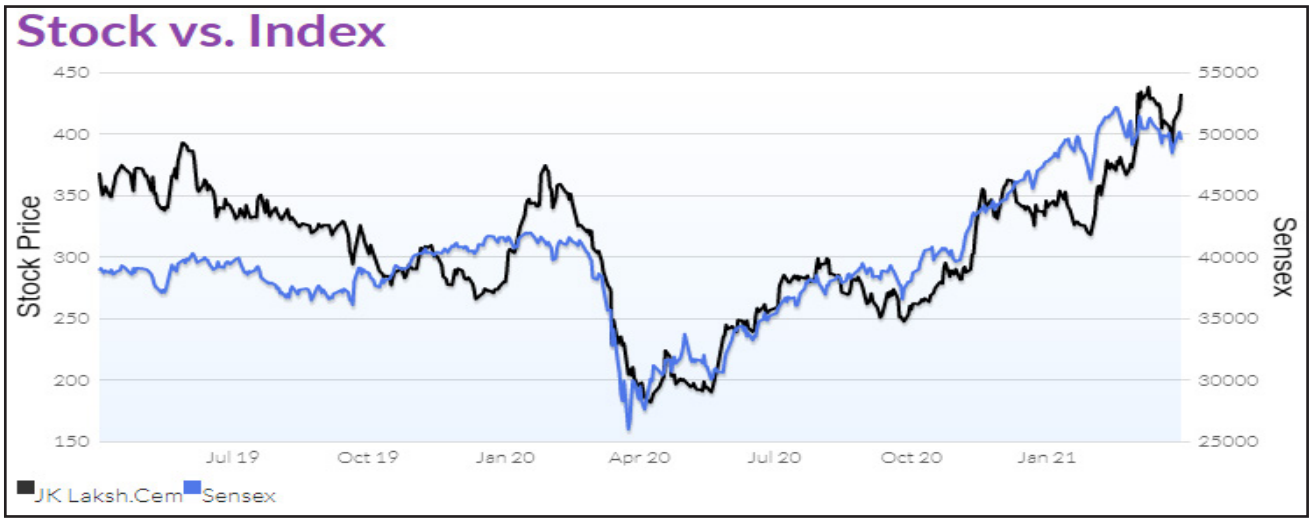
Valuations & outlook-

The TTM PE (as of March 2021) traded at a multiple of 13.72. The core EV/EBITDA (as of March 2020) stood at 5.04x. The ROE of the company for the year ending in March 2020 was 15.97 per cent whereas the ROCE for the same period was 16.30 per cent. The ROE and ROCE in FY19-20 were higher than their 3-year average. The 3-year average ROE stood at 7.27 per cent whereas the ROCE was 10.52 per cent for the same time period. Housing and infrastructure are the two key segments that account for more than 80 per cent of total cement consumption in the country. The focus given on infrastructure development & housing projects in the recent Union Budget 2021-21 has brought the cement industry into the limelight. With the easing of lockdown restrictions, the success of vaccine trials, and its subsequent rollout, the economy has picked up the pace and the businesses expect to recover the losses incurred due to COVID-19 over a period of time. This economic revival is likely to impact the company positively and help to fulfill its future plans and projects. We, therefore, recommend a buy on the stock with a price target of Rs 614 representing an appreciation of 40 per cent.

Inc/Exp Statement (Consolidated) (Rs. in Crores)

Description	202003	201903	201803	201703	201603
Net Sales	4364.07	4316.31	3748.36	2921.56	2635.25
Total Income	4410.06	4371.66	3817.37	3046.65	2707.58
Total Expenditure	3566.02	3862.7	3316.59	2551.83	2362.21
PBIDT	844.04	508.96	500.78	494.82	345.37
PAT	252.97	40.66	43.39	87.3	4.32
Dividend %	50	15	15	15	5
Adj. EPS(Rs)	21.08	4.36	4.69	7.29	0.11

Quarter On Quarter (Consolidated)Rs. (in Crores)					
Particulars	202012	202009	Q on Q Var %	201912	Y on Y Var %
Net Sales	1259.84	1131.74	11.32	1077.92	16.88
Total Expenditure	1031.60	907.09	13.73	900.78	14.52
PBIDT (Excl OI)	228.24	224.65	1.60	177.14	28.85
PAT	118.44	92.96	27.41	50.85	132.92
PBIDTM% (Excl OI)	18.12	19.85	-8.72	16.43	10.29
PBIDTM%	19.73	21.43	-7.93	17.82	10.72
PATM%	9.40	8.21	14.49	4.72	99.15
Adj. EPS(Rs)	9.69	7.61	27.33	4.28	126.40



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