

Date: 28/11/2019

Recommended Price: 284-288 · Target: 330-350 · Stoploss: 258

Time Frame: 3 months

JKLAKSHMI-Weekly Chart



JKLAKSHMI- Weekly Chart

- In last six months, the stock has retraced from 395 levels to 270 levels where it has strong support base. Technically the stock has formed bullish shark harmonic pattern close to support zone as highlighted in chart.
- Moreover, the stock on weekly scale is on the verge of forming bullish harami candlestick pattern. If the pattern gets confirmed then we can see strong rally in the stock.
- 100 Monthly EMA is acting as strong support for the stock which is currently placed close to 280 levels.
- RSI oscillator on weekly scale is placed close to previous support zone and its on verge of forming positive divergence.
- Based on above set up, **we recommend to accumulate JKLAKSHMI in the range of 284-288** with a stop loss of 258 on closing basis for the target 330-350.

Key Data

| | |
|-----------------|-----------|
| Sector | Cement |
| Reco _Price | 284 -288 |
| Target Price | 350 |
| BSE Code | 500380 |
| NSE Code | JKLAKSHMI |
| Face Value (Rs) | 5/- |
| Mkt Cap (Rs Cr) | 3,327 |
| 52 Week High | 396 |
| 52 Week Low | 260 |

Source: BSE,NSE

Company background

JK Lakshmi Cement Limited (JKLC), a part of JK Group (East), was incorporated in 1938 and commenced the cement business in August 1982. It is one of the leading cement players in the Northern, Western, and Eastern regions. JKLC has a cement capacity of 13.3 million tonne per annum (MTPA) on consolidated basis.

Investment Rationale

Diversified market presence:

JKLC is one of the leading cement players in the Northern, Western, and Eastern regions. JKLC is in the business of manufacturing Ordinary Portland Cement (OPC), Blended Cement (PPC), Ready Mix Concrete (RMC), and Autoclaved Aerated Concrete (AAC) Blocks. The company also launched a new brand 'JK Sixer Cement' in September 2018 in Rajasthan, Gujarat, and Madhya Pradesh.

Healthy volume growth:

The company has captive limestone mines and is one of the low cost producers in the cement industry. The company achieved healthy volume growth of about 18% on consolidated basis in FY19. The capacity utilization levels also increased from 73% in FY18 to 86% in FY19, on consolidated basis

Cost reduction measures to led operating efficiencies:

JKLC has commissioned new captive thermal power plant in its East plant in Q1FY20, which is expected to provide Rs40-50 cost savings per ton in East plant by FY21 post securing fuel linkage. Further, the company has commissioned Odisha grinding unit (0.8MT in Q2FY20), which will reduce lead distance resulting into improvement in freight cost apart from supporting volume growth.

Improvement in financial performance:

Over the years, JKLC has a successful track record of delivering consistent growth in sales and operating profits. In the last three years (FY17-FY19), JKLC's operating revenue and profitability have grown by a CAGR of 22% and 11% respectively. Further, during the same period, company's Realisation Per Tonne improved from Rs.3661 in FY17 to Rs.4017 in FY19. JKLC has also been focusing on deleveraging its balance sheet as it has repaid Rs.200Cr debt in FY19 and will reduce debt further by Rs.280Cr in FY20. Further, During QFY20 JKLC reported healthy growth in revenue at 9.9% YoY aided by strong growth in realisation at 13.4% YoY.

Outlook and Valuation:

At the current market price of Rs.283, the stock is trading at a 10.88x its FY19 EV/ EBITDA. We believe multiple triggers such as higher realisation led by improving sales mix, focus on optimization of the Power & Fuel and freight costs, strong cash flows leading to leaner balance sheet, and government focus on infra & housing projects would help the company improve profitable growth in the coming quarters. Hence, **we recommend to ACCUMULATE.**

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