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IDBI capital

RESULTS REVIEW

# JK Lakshmi Cement Ltd. (JKLC)

Rs. 113 | Buy

**Q4FY07 results update**


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**Nifty: 4220; Sensex: 14300**

### Key Stock Data

| | |
|---|---|
| Sector | Cement |
| Bloomberg/Reuters | JKLC@IN/JKCR.BO |
| Shares o/s (m) | 57.1 |
| Market cap (Rs m) | 6,452 |
| Market cap (US$ m) | 6.5 |
| 3-m daily average vol. | 1,07,629 |

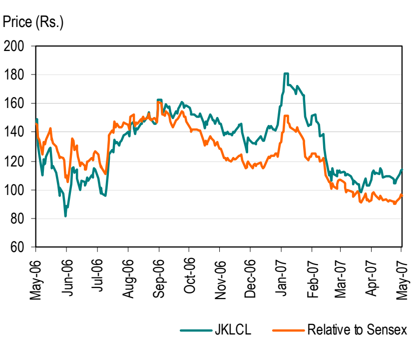
### Price Performance

| | | | |
|---|---|---|---|
| 52-week high/low | | | Rs187/79 |
| | -1m | -3m | -12m |
| Absolute (%) | 6.8 | (24.7) | (22.1) |
| Rel to Sensex (%) | 3.6 | (23.1) | (41.1) |

### Shareholding Pattern (%)

| | |
|---|---|
| Promotors | 41.52 |
| FIIs/NRIs/OCBs/GDR | 4.34 |
| MFs/Banks/FIs | 19.5 |
| Non Promoter Corporate | 11.87 |
| Public & Others | 21.82 |

### Stock vs Relative to Sensex




*Source: Capitaline*

## Summary


**JK Lakshmi Cement (JKLC) reported more than three-fold jump in its net profit for Q4FY07 at Rs.608m compared with Rs.237m posted during in Q4FY06. The company's sales during the quarter grew 43% at Rs.3,042m against Rs.2,128m. For the fiscal ended March 31, 2007 the company's profit after tax grew by 221% at Rs.1,781m against Rs.556m in FY06. The company's net sales in the year stood at Rs.8,438m against Rs.5,825m in the last year.**

**The robust results are driven by the improvements in the net realizations. We reiterate that the outlook for the sector continues to be buoyant but for a limited period. With substantial capacities expected to go on stream from FY09E, prices will come under pressure. JKLC relatively has inexpensive valuations as compared to its peers and we are positive on the company. The stock is currently trading at an EV/EBITDA of 3.7x, EV/tonne of US$ 67 and a PE of 3.2x for FY08E. While we are positive on the stock we are revising the target price to Rs.134 on the back of price corrections which may come in FY09 on account of excess supply and maintain 'Buy'.**


## Highlights

- **Net realizations continue to move up**

  There has been a continuous increase in the net realizations since the last few quarters given the favorable demand supply mismatch. Net realizations at Rs.144/bag, for Q4FY07 were 6% QoQ higher and 34%YoY higher.

- **Volumes up 9% QoQ**

  Cement volumes were also higher, sales at 0.92m tones are 8% higher QoQ and 9% higher YoY. As guided by the management, the company capitalized on this rising realizations scenario very well by operating at a capacity utilization of approximately 101%.

- **EBIDTA improves to 32.2%**

  The EBITDA for the quarter stands at Rs.849m. The EBITDA margin for the quarter stands at 32.2% as against 27.8% in the same quarter last year. For FY07 it stood at 30.3% against 20.8% in FY06.

**Table 1: Financial snapshot** (Rs. m)

| Year-end: March | Q4FY07 | Q4FY06 | YoY Change (%) | FY07 | FY08E |
|---|---|---|---|---|---|
| Net total revenues | 2,632 | 1,798 | 46 | 8,438 | 9,173 |
| Total operating expenses | 1,784 | 1,298 | 37 | 5,878 | 6,258 |
| EBITDA | 849 | 500 | 70 | 2,560 | 2,915 |
| Other income | 11.1 | 13.7 | (19) | 33 | 28 |
| EBIT(Operating profit) | 744 | 360 | 107 | 2,150 | 2,543 |
| Depreciation | 116 | 153 | (25) | 443 | 400 |
| Interest | 172 | 120 | 44 | 61 | 300 |
| Pre-tax profits | 572 | 241 | 138 | 1,788 | 2,243 |
| Prov for taxation | 36 | (4) | | 7 | 112 |
| Reported Net Profit | 608 | 237 | 157 | 1,781 | 2,131 |
| Shares outstanding – Diluted (m) | 57.1 | 49.8 | | 55.1 | 61.8 |
| Diluted EPS (Rs.) | 10.7 | 4.8 | 124 | 32.3 | 34.5 |

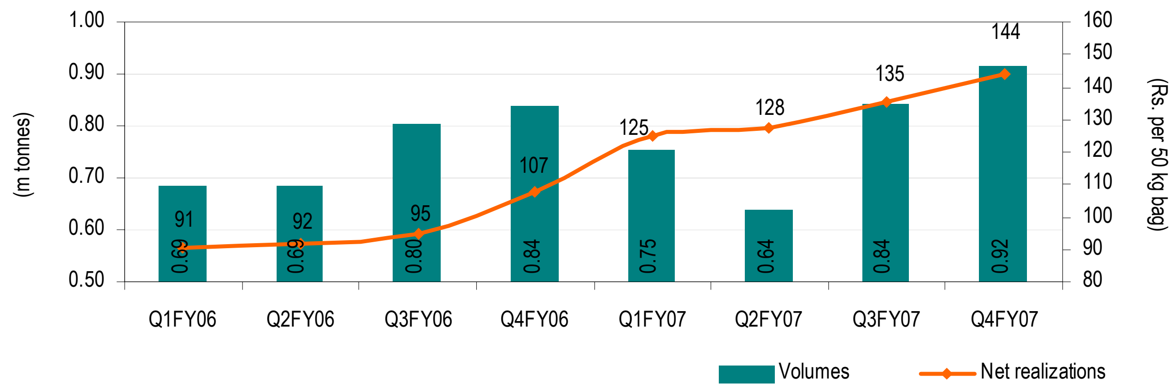
*Source: Company reports; IDBI Capital Market Services*

## Volume and realization growth

For the recent quarter, JKLC reported a 9% YoY growth in volumes to 0.92m tonnes of cement sold. However, the main thrust to revenues came from the 34% YoY increase in net realizations. Net realization improved to Rs.144 per 50 Kg bag in the quarter from Rs.107/bag a year ago and Rs.135/bag in the previous quarter. As a result the total net revenues from operations of the company increased by 46% YoY to Rs.2,632mn.

We expect cement prices to remain quite firm on the back of a tight demand-supply and the prices freezing up for a year by the industry. Again when the cement prices were at historical high levels, the Cement Industry has decided to freeze it up for a year which we believe is a positive sign for realizations of JKLC. The management is also looking the current year as 'Profit zone' due to additional capacities of 0.5m tonne coming up through the planned expansions at the 'Best Prices' in FY08.

**Figure 1: Volume and net realization**

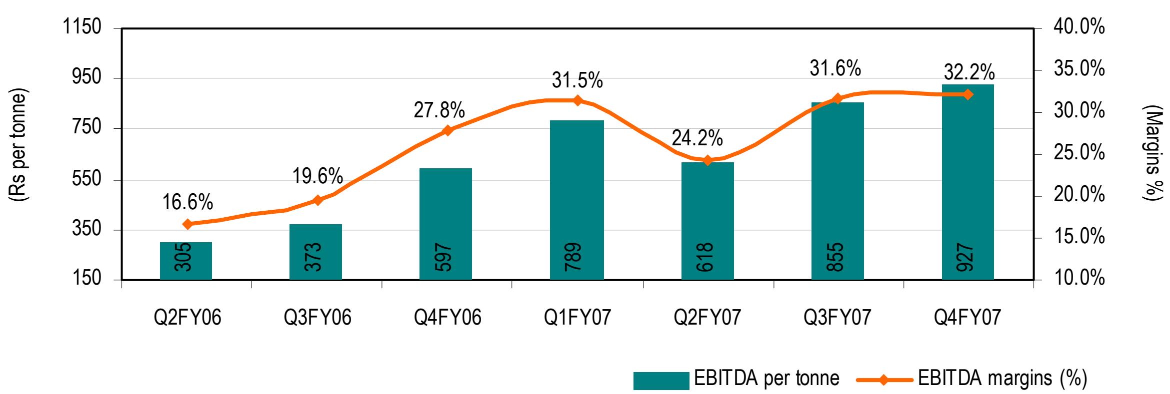



*Source: Company reports; IDBI Capital Market Services*

## EBIDTA margins continue to move up

The EBITDA per tonne has improved from Rs.597 in Q4FY06 to Rs.927 in Q4FY07. The company recorded an EBITDA of Rs.849m, up 70% YoY and 18% QoQ.

**Figure 2: EBITDA margins and EBITDA per tonne**




*Source: Company reports; IDBI Capital Market Services*

With company currently reporting a capacity utilization of 101%, the margins for FY08 are expected to be slightly higher than those of Q4FY07.

### Cost analysis

The Q4FY07 saw cost per tonne for the company increase of 26% YoY and 5% QoQ. A brief analysis of the costs is as below:

**Table 2: Cost analysis-per tonne basis** (Rs. m)

| Cost per tonne | Q4FY07 | Q4FY06 | % Change (YoY) | Q3FY07 | % Change (QoQ) |
|---|---|---|---|---|---|
| Raw material cost | 318 | 218 | 46 | 290 | 10 |
| Staff cost | 69 | 96 | (27) | 121 | (43) |
| Power and fuel | 701 | 599 | 17 | 715 | (2) |
| Transportation | 427 | 266 | 61 | 392 | 9 |
| Other expenses | 261 | 158 | 65 | 207 | 26 |
| Total cost | 1,950 | 1,552 | 26 | 1,854 | 5 |

*Source: Company reports; IDBI Capital Market Services*

We expect the company to work at not less than the current capacity level for FY07, hence going forward the cost will remain quite stable. Power and Fuel costs will be further optimized as the captive power plant of 18MW is already commissioned and the second phase of 18MW is likely to be completed by June, 07. It will make the company self efficient for most of its power needs.

### Interest and depreciation cost stable

The depreciation cost recorded by the company was sequentially stable for the Q4FY07 at Rs.116m as compared to 109m in the previous quarter. However, the interest cost was higher sequentially at Rs.172m as compared to Rs.70m reported in the previous quarter. The company expects a repayment of Rs.600m during the year after which the debt equity ratio will stand at 0.9 at the end of FY08 as compared to 1.6 at the end of FY07.

## Outlook for the sector and cement price

High volume growth and limited capacity addition has improved demand-supply situation for the industry significantly. As a result, cement is going through a cyclical upturn, which we believe will likely to continue at least for the next 8-10 months as the new capacities will come into play mainly after FY08.

Although the uncertainty on cement prices due to government intervention (through differential excise structure, abolishment of import duty) is expected to prevail in the near term, the outlook for the Indian cement sector remains positive. Again when the cement prices were at historical high levels, the Cement Industry has decided to freeze it up for a year which is a positive sign for realizations. Again the prevailing discount of imported cement price to domestic prices will discourage the sector to hike the prices from current level.

Therefore we expect cement prices to rule quite firm through FY08 and will decline afterwards. We believe cement as a sector will continue to deliver robust top line performance and bottom-line are a function of Government policies and the operating efficiencies of individual companies.

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