

16th May 2007

Reduce

Price Target Price
Rs163 **Rs 158**

Sensex - 13,929

Price Performance

| (%) | 1M | 3M | 6M | 12M |
|----------------|----|------|------|------|
| Absolute | 5 | (14) | (14) | (6) |
| Rel. to Sensex | 1 | (12) | (17) | (20) |

Source: Bloomberg

Stock Details

| | |
|------------------------------|---------|
| Sector | Cement |
| Reuters | JKCE.BO |
| Bloomberg | JKCE@IN |
| Equity Capital (Rs mn) | 699 |
| Face Value | 10 |
| 52 Week H/L | 231/109 |
| Market Cap (Rs bn) | 11.4 |
| Daily Avg Vol (No of shares) | 116334 |
| Daily Avg Turnover (US\$ mn) | 0.4 |

Shareholding Pattern (%)

(31st Mar.'07)

| | |
|---------------|------|
| Promoters | 61.6 |
| FII/NRI | 14.3 |
| Institutions | 9.8 |
| Private Corp. | 3.8 |
| Public | 10.6 |

Ajit Motwani

ajit.motwani@emkayshare.com

+91 22 6612 1255

JK Cement

Result
Update

Numbers better than expected

JK Cement Q4FY2007 net profit of Rs615 million for Q4FY2007, was ahead of our expectations, primarily because of better than expected cement realisation. The higher than expected cement realisation came on the back of higher sales of OPC cement. Prices of OPC cement today are Rs15-20 per bag. The revenues for the quarter grew by a healthy 49% year on year to Rs.3666 millions driven by cement realization growth of 35.5%. JKCL's Cement volumes grew 10% as company benefited from strong cement demand and the small capacity expansion of 0.5 it undertook during the year. The company's leverage to cement prices led to a massive 145% jump in its operating profits to Rs.1118 millions whereas the operating margins expanded by 12% points to 30.5%. The net interest cost stood at Rs.9.2 millions which is net of interest earned (Rs40 million of interest income) on surplus IPO funds which are still under utilised on account of these funds still to be deployed for capex. As of now the surplus is Rs1850 million still in bank deposits and will be utilised as and when the company completes its captive power projects. The net profit for the quarter stood at Rs.615 millions registering a whopping growth of 275% yoy. Taking into account the latest development which also includes change in excise duty structure, we are upgrading our earnings estimates for JK cement for FY2008 and FY2009 by 18% and 14%. On account of better than expected number we are also upgrading our price target for JK Cement to Rs158. At current price of Rs158 the stock does not provide significant upside from current levels. We expect JKCL earnings to grow at a CAGR of 1% over FY2007-2009E. We maintain our REDUCE rating on the stock based on expectation of softening cement prices in FY2009 on the back of capacity led downturn.

Result Highlights HFCL and Qualcomm signs deal to manufacture CDMA handsets

- JK Cement Q4FY2007 net profit of Rs615 million for Q4FY2007, was ahead of our expectations, primarily because of better than expected cement realisation. The higher than expected cement realisation came on the back of higher sales of OPC cement. Prices of OPC cement today are Rs15-20 per bag. Hence JK cement has been able to get better overall contribution even its blended cement sales have been 54% in Q4FY2007 as compared to 58% in Q3FY2007. Also the interest charge for the quarter was lower on account of higher interest earned on surplus sum of IPO which is still to be utilised for committed capex.
- The revenues for the quarter grew by a healthy 49% year on year to Rs.3666 millions driven by cement realization growth of 35.5% which stood at Rs3597 per ton which was higher than our expectation. The higher than expected cement realisation has been on account of higher OPC cement sales which are now commanding a premium of Rs15-20 per bag as compared to PPC cement. The higher sales of OPC cement was because of a Govt supply order in Uttaranchal. JKCL's Cement volumes grew 10% as company benefited from strong cement demand and the small capacity expansion of 0.5 it undertook during the year.
- The company's leverage to cement prices led to a massive 145% jump in its operating profits to Rs.1118 millions whereas the operating margins expanded by 12% points to 30.5%.

- Even though JKCL has been amongst the prime beneficiary of buoyant cement demand, the trend of continuous increase in cost continued. Company's total cost increased by 15.6% to almost Rs2500 per ton. The increase in cost was attributed to a 10% increase in raw material cost as company produced more OPC cement. Similarly its freight cost increased 18.5% as the ban on overloading is showing its full impact and also due to supply of Govt order of OPC cement in Uttaranchal. There was a 32.7% increase in other expenditure also.
- However with cement prices increasing more than cost, the EBITDA/tonne more than doubled to Rs.1097 as against Rs.492 in the same quarter last year.
- The net interest cost stood at Rs.9.2 millions which is net of interest earned (Rs40 million of interest income) on surplus IPO funds which are still under utilised on account of these funds still to be deployed for capex. As of now the surplus is Rs1850 million still in back deposits and will be utilised as and when the company completes its captive power projects.
- The net profit for the quarter stood at Rs.615 millions registering a whopping growth of 275% yoy.
- The company capex plan which includes setting up of a 20 MW pet coke plant and a 13 MW waste heat recovery plant have been delayed because of some technical mishaps. The 10 MW turbine which was earlier supposed to be commissioned in March 2007, will now be commissioned in by end of July 2007. Similarly the 20 MW pet coke plant which was get commissioned in April 2007 will now get commissioned in June 2007 and the waste heat recovery plant will get commissioned in 3 phase over August to November 2007.
- The new 3 million tonne plant at Karnataka is progressing as per schedule.

Earnings upgraded

As mentioned earlier JK cement's Q4FY2007 are was ahead of our expectations, primarily because of better than expected cement realisation. Taking into account the latest development which also includes change in excise duty structure, we are upgrading our earnings estimates for JK cement for FY2008 and FY2009 by 18% and 14%. Our EPS estimates now stand at Rs28 for FY2008 and Rs25.6 for FY2009.

| (Rs mn) | Earlier estimates | | New Estimates | | Remark |
|----------------------|-------------------|--------|---------------|--------|--|
| | FY2008 | FY2009 | FY2008 | FY2009 | |
| Sales | 13564 | 14838 | 14253 | 15491 | Higher OPC sales results in higher realisation Factoring in sales from 0.35 MT capacity of Nihon Nirman |
| EBIDTA | 3600 | 3711 | 4018 | 40008 | Higher than expected saving in power and fuel cost |
| EBIDTA Margin | 26.5% | 25.0% | 28.2% | 258.3% | Visible control on overheads |
| Net Profit | 1666 | 1569 | 1966 | 1791 | Impact of changes in sales and EBIDTA margins |
| EPS | 23.8 | 22.4 | 28.1 | 25.6 | Earnings upgrade of 18% for FY2008 and 14% in Fy2009 |

Price target upgraded to Rs158

On account of better than expected number we are also upgrading our price target for JK Cement to Rs158. Our price target for JK cement is based on 25% discount to its enterprise replacement cost of USD91. The upgrade in price target for JK Cement is on account of higher than expected earnings and additional capacity which JK cement will have on account of Nihon Nirman. Further we are also factoring significant saving in power and fuel cost and also lower over heads, the first signs of which are visible in the Q4FY2007 results.

Enterprise replacement Cost Workings

| | |
|---------------------------------------|-------|
| Cost of setting up a new cement plant | 75 |
| Capacity (FY2009) | 7.4 |
| Value | 24.81 |
| PV of Free Cash | 5.81 |
| Replacement Cost | 30.61 |
| EV/Tonne | 93 |
| Premium/(Discount) | -30% |
| Target EV | 21.43 |
| Target EV/Tonne | 65 |
| Less: | |
| Debt | 10.39 |
| Target Mcap | 11.04 |
| Equity Shares in issue (in million) | 69 |
| Fair Value (Rs per share) | 158 |

Maintain Reduce

North India is expected to add a huge 26 million tonne of cement capacities over FY2007-09. This pegs its share of new capacities at a huge 32% as against its current share of 21%. In this scenario, the pricing power in the hands of cement producer is expected to weaken particularly in the light that new age cement baron like Jaiprakash and Shree would have huge capacities in their fold to operate by FY2009. This raises questions on pricing discipline. In a scenario such a scenario it is highly unlikely that the cement prices would remain firm in FY2009. Amongst its peers JKCL has the highest leverage to cement prices. Any sharp softening in cement prices could take its toll on JKCL's performance. At current price of Rs158 the stock does not provide significant upside from current levels. We expect JKCL earnings to grow at a CAGR of 1% over FY2007-2009E. We maintain our REDUCE rating on the stock based on expectation of softening cement prices in FY2009 on the back of capacity led downturn.

Results table

| | Q407 | Q406 | YoY | FY2007 | FY2006 | YoY |
|---------------------------|-------|-------|------|--------|--------|------|
| Net sales | 3666 | 2459 | 49% | 12333 | 8737 | 41% |
| Total Expenditure | 2548 | 2003 | 27% | 9040 | 7416 | 22% |
| Raw Material Consumed | 328 | 269 | 22% | 1223 | 904 | 35% |
| Stock Adjustment | -8 | -127 | -94% | -18 | -156 | -88% |
| Stores | 206 | 183 | 13% | 837 | 744 | 13% |
| Employee Expenses | 123 | 113 | 9% | 488 | 412 | 18% |
| Power, Oil & Fuel | 855 | 790 | 8% | 3097 | 2856 | 8% |
| Freight | 733 | 562 | 30% | 2443 | 1877 | 30% |
| Other Expenses | 311 | 213 | 46% | 970 | 779 | 25% |
| Operating Profits | 1118 | 456 | 145% | 3293 | 1321 | 149% |
| Other Income | 34 | 33 | 3% | 67 | 93 | -28% |
| EBIDTA | 1152 | 489 | 136% | 3360 | 1414 | 138% |
| Interest | 92 | 143 | -36% | 347 | 582 | -40% |
| PBDT | 1060 | 346 | 206% | 3013 | 832 | 262% |
| Depreciation | 87 | 80 | 9% | 332 | 310 | 7% |
| PBT | 973 | 266 | 266% | 2681 | 522 | 414% |
| Tax | 358 | 102 | 251% | 934 | 160 | 484% |
| Net Profit | 615 | 164 | 275% | 1747 | 342 | 411% |
| Extra-ordinary Items | | | | 40 | 0 | |
| Reported Profit After Tax | | | | 1787 | 342 | 423% |
| EPS | 8.8 | 2.3 | | 25.0 | 4.9 | |
| Operating Margins(%) | 30.5% | 18.5% | 1195 | 26.7% | 15.1% | 1158 |
| EBIDTA(%) | 31.4% | 19.9% | 1154 | 27.2% | 16.2% | 1106 |
| PBDT (%) | 28.9% | 14.1% | 1484 | 24.4% | 9.5% | 1491 |
| PATM (%) | 16.8% | 6.7% | 1011 | 14.2% | 3.9% | 1025 |
| Tax rate | 36.8% | 38.3% | -155 | 34.8% | 30.7% | 419 |

Per tonne analysis

| Expenditures per tonne | Q407 | Q406 | YoY |
|------------------------|---------|--------|--------|
| Dispatch Quantity | 1019284 | 926207 | 10.0% |
| Grey Cement | 952179 | 859387 | 10.8% |
| White Cement | 67105 | 66820 | 0.4% |
| Raw Material Consumed | 321.8 | 290.4 | 10.8% |
| Stock Adjustment | -7.8 | -137.1 | -94.3% |
| Stores | 202.1 | 197.6 | 2.3% |
| Employee Expenses | 120.7 | 122.0 | -1.1% |
| Power, Oil & Fuel | 838.8 | 852.9 | -1.7% |
| Freight | 719.1 | 606.8 | 18.5% |
| Other Expenses | 305.1 | 230.0 | 32.7% |
| Total exp | 2499.8 | 2162.6 | 15.6% |
| Realisation | 3597 | 2655 | 35.5% |
| EBIDTA/Ton | 1096.8 | 492.3 | 122.8% |

| Income Statement | | | | | Balance Sheet | | | | |
|------------------------|-------|-------|-------|-------|----------------------------|---------|---------|---------|---------|
| Mar end (Rs mn) | FY06 | FY07E | FY08E | FY09E | Mar end (Rs mn) | FY06 | FY07E | FY08E | FY09E |
| Net Sales | 8723 | 12335 | 14253 | 15491 | Equity share capital | 699.3 | 699.3 | 699.3 | 699.3 |
| Growth (%) | 164.8 | 41.4 | 15.6 | 8.7 | General Reserves | 2859.8 | 4343.9 | 6113.6 | 7725.1 |
| Total Expenditure | 7403 | 9043 | 10235 | 11483 | Revaluation Reserve | 3183.7 | 3183.7 | 3183.7 | 3183.7 |
| Growth (%) | 154.4 | 22.1 | 13.2 | 12.2 | Total Reserves | 6043.5 | 7527.6 | 9297.3 | 10908.8 |
| Raw Materials Expenses | 907 | 1223 | 1405 | 1634 | Networth | 3559.1 | 5043.2 | 6812.9 | 8424.4 |
| % of sales | 10.4 | 9.9 | 9.9 | 10.6 | Shareholders Funds | 6742.8 | 8226.9 | 9996.6 | 11608.1 |
| Employee cost | 286 | 343 | 384 | 480 | Net Deferred tax liability | 174.0 | 174.0 | 174.0 | 174.0 |
| % of sales | 3.3 | 2.8 | 2.7 | 3.1 | Secured Loans | 4431.4 | 3717.4 | 3003.4 | 3003.4 |
| Power & Fuel cost | 2856 | 3100 | 3326 | 3342 | Unsecured Loans | 1390.2 | 1390.2 | 1390.2 | 1390.2 |
| % of sales | 32.7 | 25.1 | 23.3 | 21.6 | Loans for new plant | | 1000.0 | 5000.0 | 6000.0 |
| Freight Charges | 1877 | 2445 | 2939 | 3415 | Loan Funds | 5821.6 | 6107.6 | 9393.6 | 10393.6 |
| % of sales | 21.5 | 19.8 | 20.6 | 22.0 | Total Liabilities | 12738.4 | 14508.5 | 19564.2 | 22175.7 |
| Admin & Other expenses | 1477 | 1932 | 2181 | 2611 | Gross Block | 9592.0 | 10342.0 | 12942.0 | 22442.0 |
| % of sales | 16.9 | 15.7 | 15.3 | 16.9 | Less: Acc. Depreciation | 612.1 | 944.1 | 1591.2 | 2357.1 |
| EBIDTA | 1320 | 3292 | 4018 | 4008 | Net block | 8979.9 | 9397.9 | 11350.8 | 20085.0 |
| Growth (%) | 243.5 | 149.4 | 22.0 | -0.2 | Capital work in progress | 569.0 | 4100.0 | 7000.0 | 250.0 |
| EBIDTA % | 15.1 | 26.7 | 28.2 | 25.9 | Investment | 0.0 | 0.0 | 0.0 | 0.0 |
| Other income | 94 | 67 | 50 | 50 | Current Assets | 5095.6 | 4159.5 | 4835.3 | 5768.0 |
| Interest | 582 | 347 | 395 | 538 | Inventories | 839.8 | 1013.8 | 1171.5 | 1273.2 |
| Depreciation | 310 | 332 | 647 | 766 | Sundry debtors | 463.0 | 675.9 | 781.0 | 848.8 |
| EBT | 522 | 2680 | 3025 | 2755 | Cash & bank balance | 2854.2 | 1531.2 | 1944.3 | 2707.3 |
| Tax | 196 | 934 | 1059 | 964 | Loans & advances | 938.6 | 938.6 | 938.6 | 938.6 |
| EAT | 325 | 1746 | 1966 | 1791 | Current liabilities & Prov | 1925.1 | 3167.9 | 3640.9 | 3946.2 |
| Growth (%) | 222.1 | 436.7 | 12.6 | -8.9 | Current liabilities | 1796.9 | 3041.4 | 3514.4 | 3819.7 |
| EAT (%) | 3.7 | 14.2 | 13.8 | 11.6 | Provisions | 128.2 | 126.5 | 126.5 | 126.5 |
| E/O items | 0.0 | 0.0 | 0.0 | 0.0 | Net current assets | 3170.5 | 991.6 | 1194.4 | 1821.7 |
| Adjusted PAT | 325 | 1746 | 1966 | 1791 | Miscellaneous expenditure | 19.0 | 19.0 | 19.0 | 19.0 |
| | | | | | Total Assets | 12738.4 | 14508.5 | 19564.2 | 22175.7 |

Source : Company, Emkay Research

Source : Company, Emkay Research

| Cash Flow | | | | | Ratios | | | | |
|-------------------------------|--------|---------|---------|---------|-----------------------|-------|-------|-------|-------|
| Mar end (Rs mn) | FY06 | FY07E | FY08E | FY09E | Mar end | FY06 | FY07E | FY08E | FY09E |
| Net Profit after Tax | 325.3 | 1746.0 | 1966.3 | 1790.5 | EPS | 4.7 | 25.0 | 28.1 | 25.6 |
| Add : Depreciation | 310.0 | 332.0 | 647.1 | 765.9 | CEPS | 9.1 | 29.7 | 37.4 | 36.6 |
| Add : Misc exp w/off | | | | | Book Value Per Share | 50.9 | 72.1 | 97.4 | 120.5 |
| Add : intangibles w/off | | | | | Dividend Per Share | 1.5 | 3.7 | 2.8 | 2.6 |
| changes in debtors | -40.3 | -212.9 | -105.1 | -67.9 | PER | 35.5 | 6.6 | 5.9 | 6.4 |
| changes in inventories | -174.2 | -174.0 | -157.7 | -101.8 | P/CEPS | 18.2 | 5.6 | 4.4 | 4.5 |
| changes in creditors | 279.5 | 1244.5 | 473.0 | 305.3 | P/B (X) | 3.2 | 2.3 | 1.7 | 1.4 |
| change in provisions | 76.7 | 0.0 | 0.0 | 0.0 | EV/EBIDTA | 11.0 | 4.6 | 3.5 | 4.8 |
| changes in L & A | -36.3 | 0.0 | 0.0 | 0.0 | EV/Sales | 1.7 | 1.2 | 1.0 | 1.2 |
| Net changes in WC | 105.4 | 857.6 | 210.2 | 135.7 | M-Cap/EBIDTA | 8.7 | 3.5 | 2.9 | 2.9 |
| C.F from Operating activities | 740.7 | 2935.6 | 2823.7 | 2692.1 | M-Cap/sales | 1.3 | 0.9 | 0.8 | 0.7 |
| Capital expenditure | -771.9 | -4281.0 | -5500.0 | -2750.0 | EV/Tonne (US \$) | 82.7 | 76.3 | 66.1 | 55.5 |
| Investments | 0.0 | 0.0 | 0.0 | 0.0 | | | | | |
| C.F from Investing activities | -771.9 | -4281.0 | -5500.0 | -2750.0 | Financial ratios | | | | |
| Free Cash flow | -31.2 | -1345.4 | -2676.3 | -57.9 | RoCE | 8.2% | 21.1% | 25.4% | 23.3% |
| Borrowings | -591.2 | 286.0 | 3286.0 | 1000.0 | RoNW | 4.8% | 21.2% | 19.7% | 15.4% |
| dividend paid | -104.9 | -263.6 | -196.6 | -179.1 | Net debt/ Equity (x) | 0.4 | 0.4 | 0.2 | 0.7 |
| Issue of shares | 2900.0 | | | | Total Debt/Equity (x) | 1.6 | 1.2 | 1.4 | 1.2 |
| C.F from Financing activities | 2203.9 | 22.4 | 3089.4 | 820.9 | Dividend yield | 0.91% | 2.27% | 1.70% | 1.55% |
| changes in cash | 2172.7 | -1323.0 | 413.0 | 763.0 | | | | | |
| Opening balance | 681.5 | 2854.2 | 1531.2 | 1944.3 | | | | | |
| Closing balance | 2854.2 | 1531.2 | 1944.3 | 2707.3 | | | | | |

Source : Company, Emkay Research

Source : Company, Emkay Research

DISCLAIMER: This document is not for public distribution and has been furnished to you solely for your information and may not be reproduced or redistributed to any other person. The manner of circulation and distribution of this document may be restricted by law or regulation in certain countries, including the United States. Persons into whose possession this document may come are required to inform themselves of, and to observe, such restrictions. This material is for the personal information of the authorized recipient, and we are not soliciting any action based upon it. This report is not to be construed as an offer to sell or the solicitation of an offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal. No person associated with Emkay Share & Stock Brokers Ltd is obligated to call or initiate contact with you for the purposes of elaborating or following up on the information contained in this document. The material is based upon information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied upon. Neither Emkay Share & Stock Brokers Ltd, nor any person connected with it, accepts any liability arising from the use of this document. The recipient of this material should rely on their own investigations and take their own professional advice. Opinions expressed are our current opinions as of the date appearing on this material only. While we endeavor to update on a reasonable basis the information discussed in this material, there may be regulatory, compliance, or other reasons that prevent us from doing so. Prospective investors and others are cautioned that any forward-looking statements are not predictions and may be subject to change without notice. We and our affiliates, officers, directors, and employees world wide, including persons involved in the preparation or issuance of this material may: (a) from time to time, have long or short positions in, and buy or sell the securities thereof, of company (ies) mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company (ies) discussed herein or may perform or seek to perform investment banking services for such company(ies) or act as advisor or lender / borrower to such company(ies) or have other potential conflict of interest with respect to any recommendation and related information and opinions. The same persons may have acted upon the information contained here. No part of this material may be duplicated in any form and/or redistributed without Emkay Share & Stock Brokers Ltd's prior written consent. No part of this document may be distributed in Canada or used by private customers in the United Kingdom. In so far as this report includes current or historical information, it is believed to be reliable, although its accuracy and completeness cannot be guaranteed.