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INDIA EQUITY RESEARCH

31 May 2006

India Daily Note

BSE Sensex: 10,786.6 ⇩ -66.5 (-0.6%) **NSE 50 Nifty: 3,185.3 ⇩ -29.6 (-0.9%)**

Market Movement

	Close	Diff	% Chg
BSE 100	5,573.0	-38.7	-0.7%
CNX Nifty Jr	5,966.0	-49.5	-0.8%
Dow Jones	11,094.4	-184.2	-1.7%
Nasdaq	2,164.7	-45.6	-2.1%

Turnover

	Rs mn		% Chg
BSE	32,150	⇧	29.3%
NSE	58,380	⇧	6.7%

Advances/Declines (%)

	Advances	Declines
BSE	43.8%	53.4%
NSE	39.1%	58.2%

Nifty Delivered Statistics

	Delivered Quantity	% Daily Quantity*
Most Delivered		
HDFC	285,432	76.6
Sun Pharma	140,182	74.2
Tata Chemical	450,456	68.5
Glaxo	44,364	67.6
Least Delivered		
VSNL	402,876	17.9
Maruti	81,941	13.6
ACC	163,684	11.3
Tata Steel	364,732	8.8

* to trade quantity.

Institutional Activity

29 May 2006	Cash (Rs mn)	F&O (Rs mn)
FIIs		
Buy	9,811	7,822
Sell	10,629	11,941
Net	-818	-4,118
Mutual Funds		
Buy	3,384	-
Sell	1,933	-
Net	1,451	-

Key Statistics

	Close	Change
Rs/US$	46.19	-0.22
Rs/Euro	59.30	-0.47
10 yr G-Sec (%)	7.66	0.02
Call rate (%)	5.50	-
Brent-spot (US$/bbl)	70.79	1.12
WTI-spot (US$/bbl)	71.37	0.00
Aluminium (LME, US$/t)	2,750	14.00
Copper (LME, US$/t)	8,420	120.00
Zinc (LME, US$/t)	3,949	151.00
Steel (US$/t)	465	0.00

Inside

- **JK Lakshmi Cement: OPM jumps on price increases**

JK Lakshmi Cement (JKLC) declared excellent 4Q FY06 results with a 105% rise in PAT to Rs237 mn as against our expectation of Rs271 mn. The sales revenue grew by 43% YoY to Rs1.8 bn mainly driven by 23% YoY growth in realizations and 16% YoY growth in volumes to 0.84 mn tonnes. EBIDTA margins grew substantially by 1,420 bps YoY to 27.8%. The growth in margins was on the back of jump in realizations as well as better cost control – cost of production decreased by 3% YoY to Rs1,548/tonne. The company was recently relisted following the demerger of its investment division.

Based on JKLC's performance in 4Q FY06 and considering the demand outlook in its markets and the pricing visibility for cement, we are maintaining our PAT estimates for FY07E at Rs943 mn and introducing our estimates for FY08E. We maintain our target price of Rs180 based on FY08E EV/EBITDA of 7.0x, a PE of 9.5x and an EV/tonne of US$91. The valuations are a little lower than our earlier target valuations (PE of 10.5x, EV/EBIDTA of 8.5x, EV/tonne of US$96) due to the ongoing balance sheet restructuring and its recent decision to take on additional debt to fund the power plant that was earlier planned through an SPV. The stock offers good value and we maintain our Buy rating.

(Please click here for details on page 2)

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JK Lakshmi Cement

Result Update **Rs130; Buy**

OPM jumps on price increases

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Highlights

- **Strong volume growth:** JKLC reported a volume growth of 16% YoY to 0.84 mn tonnes in 4Q FY06. For FY06 it reported a sales volume of 3.01 mn tonnes, an increase of 8% YoY. JKLC's markets are well spread out in northern India (64% of volumes) and it also sells 18% of volumes in Gujarat. It has a 15% market share in North India, where demand grew by 12% YoY in FY06 and 12% market share in Gujarat (western India) where the consumption grew by 5% YoY in FY06. The company is also expanding its capacity from 3 mn tonnes to 3.2 mn tonnes by September 2006 and further to 3.5 mn tonnes by January 2007. We expect JKLC's volumes to rise by 7% YoY to 3.2 mn in FY07E and 7% YoY to 3.4 mn tonnes in FY08E, benefiting from the buoyant demand led by housing and infrastructure and due to the Commonwealth Games to be held in Delhi in 2010.

Exhibit 1: Financial summary (Rs mn)

Y/E March	FY05	FY06E	FY07E	FY08E
Net Sales	4,868	5,825	6,879	7,487
EBITDA	676	1,209	1,781	2,089
EBITDA (%)	13.9	20.8	25.9	27.9
Net Profit	245	510	942	1,062
EPS (Rs)	4.4	10.3	17.4	19.6
ROCE (%)	3.3	8.4	13.2	14.5
RONW (%)	15.1	24.0	31.2	27.0
PE (x)	29.3	14.0	7.6	6.7
EV/EBITDA (x)	20.6	10.3	6.9	5.6
EBITDA/tonne (Rs)	243	402	555	614
EV/tonne (US$)	133	99	79	74

Source: Company, ASK-Raymond James. Note: Valuations as of 30 May 2006.

Sector: Cement

Target Price	**Rs180**
Market cap	Rs6.4 bn/US$140 mn
52-week range	Rs195/53
Shares in issue (mn)	49.8
6-mon avg daily vol (no of shares)	152,500
6-mon avg daily vol (mn)	Rs19.8/US$0.4
Bloomberg	JKLC IN
Reuters	JKCR.BO
BSE Sensex	10787
Website	www.jkcorpltd.com

Shareholding Pattern (%)

Promoters	39.9
FIIs	0.0
MFs/FIs/Banks	20.1
Others / Public	40.0

(As of 31 March 2006)

Price Performance (%)

	1M	3M	12M
Absolute	(4.3)	26.8	100.3
Relative*	4.7	22.8	39.6

**To the BSE Sensex*

Relative Performance

(As of 30 May 2006)

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- **Strong rise in realizations:** JKLC's sales grew by 43% to Rs1.8 bn in 4Q FY06 largely due to strong realization growth of 23% YoY and 12.7% QoQ (as against our expectation of 10.5% QoQ) to Rs2,144/ tonne. Cement prices in the northern region have increased by Rs25-30 per 50 kg bag which is a rise of 19% QoQ. Prices in the western region particularly in Gujarat have increased by around Rs10-14 per 50 kg bag which is a rise of 8% QoQ. Going forward, we expect prices to go up further due to strong demand in the region and limited capacity addition till 2H FY08E. Considering the current price increases in recent months and assuming a likely dip in prices during the monsoons, we expect JKLC's overall realizations to rise by 10.7% YoY in FY07E and a smaller increase of 2.7% YoY in FY08E due to high base in FY07E and huge capacity addition expected in the region in 2H FY08E.

- **EBITDA margins jump substantially to 28%:** EBITDA margins surged by 1,420 bps YoY to 27.8%, due to higher volumes, higher realization and better cost efficiencies. The power and fuel costs per tonne declined by 5% YoY in 4Q FY06 due to higher usage (now almost 90%) of pet coke which works out cheaper than coal as it has a higher calorific value. The planned 36 MW captive power plant, which is likely to be completed by June 2007, should further help improve margins for the company, as it would help cut power and fuel costs per tonne by around 7% YoY in FY08E.

- **Capex plans:** JKLC plans to spend around Rs400 mn to increase the capacity to 3.5 mn tpa by January 2007. The planned 36 MW power plant was earlier to be set up through an SPV as it was difficult for the company to raise further debt. However as debt is now available, the power plant (capex Rs1.5 bn) will be set up by the company by raising debt of about Rs1.1 bn and the balance from internal accruals and promoter contribution.

- **Restructuring leads to better focus:** JKLC recently completed the demerger of its investment holdings of Rs1.7 bn into a separate company (Ashim Investment Company) with effect from 1 April 2005. JKLC recently got relisted following the completion of the demerger process. Post demerger, JKLC's equity capital of Rs553 mn (55.3 mn shares of Rs10 each) have been reduced by 10% to Rs498 mn (49.8 mn shares).

- **Interest costs jump in 4Q due to one off charge:** JKLC is continuing the process of reducing and restructuring its high cost debt. They have successfully negotiated the waiver of Rs660 mn of contingent liability and substantial interest payments in the future on a debt of Rs980 mn. This debt is now interest free. To achieve this, JKLC has issued 4.35 mn shares at par which takes outstanding equity share capital to 55.4 mn shares, which we have taken to calculate our EPS in FY07E & FY08E. Additionally they have paid a one-time compensation of Rs60 mn which has been accounted for in 4Q FY06. Interest costs are likely to be around 3Q FY06 levels (Rs67 mn) going forward, with a possibility of reduction in the coming quarters. If JKLC's on going negotiations with its lenders work in its favour, there could be a reduction of around Rs100 mn p.a. in interest costs (or about Rs2/share).

- **Attractive valuations:** We maintain our earnings for FY07E and introduce FY08E forecasts for JKLC. FY07E numbers have been recently upgraded and taken into account the recently announced 4Q FY06 numbers and recent trends in cement prices. We have assumed that average realizations should grow by 10.7% YoY in FY07E and by 2.7% YoY in FY08E. The stock is currently trading at 5.6x EV/EBIDTA, PE of 6.7x and EV/tonne of US$74 on our FY08E estimates. We maintain our target price of Rs180 based on FY08E EV/EBITDA of 7.0x, a PE of 9.5x and an EV/tonne of US$91. The valuations are a little lower than our earlier target valuations (PE of 10.5x, EV/EBIDTA of 8.5x, EV/tonne of US$96) due the ongoing balance sheet restructuring and its recent decision to take on additional debt to fund the power plant that was earlier planned through an SPV. The stock offers good value and we maintain our Buy rating.

Exhibit 2: Quarterly results **(Rs mn)**

Y/E March	4QFY06	4QFY05	% chg	3QFY06	3QFY05	% chg
Sales	1,798	1,259	43	1,529	1,182	29
Expenditure	1,298	1,088	19	1,229	1,056	16
EBITDA	**500**	**171**	**191**	**300**	**126**	**137**
% margin	27.8	13.6	-	19.6	10.7	-
Other income	13.7	28	-51	8.8	3	203
Interest	120	-11	-1,206	67	3	2,289
Depreciation	153	115	34	126	125	1
Extraordinary	-	16	-	-	-	-
PBT	**241**	**111**	**116**	**115**	**2**	**7,113**
Tax	4	-4	-	2	-	-
% tax rate	1.5	-4	-	1.8	-	-
Adjusted PAT	**237**	**116**	**105**	**113**	**2**	**6,981**
Reported PAT	**237**	**116**	**-**	**113**	**2**	**6,981**

Source: Company data.

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