

JK LAKSHMI CEMENT LTD.

Poised for re-rating...

Q2 FY 2007 update

COMPANY DETAILS

Auditors	M/s. Lodha & Co.
Chairman	Mr. Hari Shankar Singhania
M.D	Mr. Bharat Hari Singhania
Reg. Off	Jaykaypuram, Basantgarh Dist. Sirohi, Rajasthan-307019
Plants	Jaykaypuram-Rajasthan
Website	www.jklakshmi.com

SCRIP DETAILS

Market Capitalisation	Rs. 8.3bn.
Book Value per share	Rs. 43
Equity Shares O/S (F.V. Rs 10)	57.1 mn.
Median Volumes (12 mths)	29,6247 (BSE+NSE)
52 Week High/Low	Rs. 163 / 82
BSE Scrip Code	500380
NSE Scrip Code	JKLAKSHMI
Bloomberg Code	STRW@IN
Reuters Code	JKCR.BO

SHAREHOLDING PATTERN (%)

Qtr. Ended	Mar-06	Jun-06	Sep-06
Promoters	39.9	37.3	41.2
MFs/FIs	20.1	25.0	22.0
FII's/NRI's/OCBs	3.9	2.9	2.8
PCBs	11.8	11.4	12.0
Indian Public/Others	24.3	23.5	21.9
Eq. shares (mn nos.)	49.8	53.5	57.1

KEY FINANCIALS (STANDALONE)

Rs Mn	Quarter Ended			Year Ended (Mar)		
	Mar-06	Jun-06	Sep-06	2006	2007E	2008E
Net Sales	1,798	1,887	1,632	5,825	7,217	8,801
YoY Gr. (%)	42.8	52.2	29.7	19.6	23.9	22.0
Op. Profit	500	595	396	1,209	2,315	2,927
Op. Marg. (%)	27.8	31.5	24.2	20.8	32.1	33.3
Net Profit	237	389	234	555	1,311	1,739
Eq. Capital	498	535	571	498	571	612

KEY RATIOS

Year Ended (Mar)	EPS (Rs.)	ROCE (%)	RONW (%)	P/E (x)	EV/Sales (x)	EV/EBDIT (x)
2006	11.1	9.7	27.0	13.3	1.9	10.0
2007E	23.0	21.7	43.7	6.3	1.5	5.2
2008E	28.4	22.3	35.4	5.1	1.2	4.2

- JK Lakshmi Cement Ltd. (JKLC) reported decent topline growth of 30% YoY to Rs 1.6 bn in Q2FY07, mainly due to higher realisations.
- In Q2FY07, JKLC's cement & clinker despatches declined by 7.2% YoY to 0.62 mn mt. However, on QoQ basis, the despatches were lower by 18%.
- The plant operations were stopped for few days in the month of Aug'06, due to unprecedented heavy rains in the region. However, the normalcy has been restored and operations have been resumed at full swing post monsoons.
- Net realisations spurt by 40% YoY to Rs 2,629/mt during the quarter, owing to strong cement prices across the northern & western region.
- Power and fuel cost rose by 17% to Rs 726/ ton in Q2FY07. Transportation & clearing charges spurt by 55% YoY to Rs 410/ton during the quarter, due to overloading restriction.
- OPM perked up by 764 bps to 24.2% in Q2FY07. This was driven by higher cement realisations and increase in proportion of blended cement.
- Interest costs witnessed a quantum jump during the quarter to Rs 58 mn. However, depreciation declined by 13% to Rs 109 mn.
- High realisations has led to almost threefold jump in net profits to Rs 234 mn in Q2FY07.
- At the CMP of Rs 145; JKLC is trading at an attractive P/E of 6.3x, EV/Ebitda of 5.1x and EV/ton of \$81, discounting its FY07E numbers. This valuations are at significant discount compared to its peers, despite JKLC scaling up its overall operations.
- *Considering the favorable demand supply situation in northern region, scope for improvement in its operational efficiency and strong cement prices, we maintain our 'BUY' recommendation.*

Nov 15, 2006

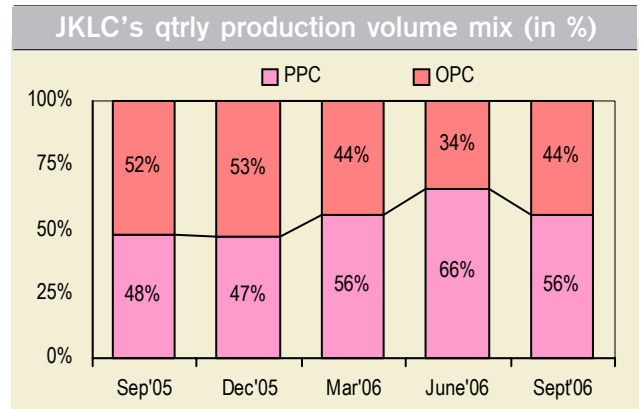
Sensex : 13469

Nifty : 3876

CMP : Rs 145

Recomm : BUY

JKLC's qtrly operational matrix					
Rs/ton	Sep'06	Jun'06	Mar'06	Dec'05	Sep'05
Net Sales Real	2,629	2,508	2,183	1,963	1,881
Raw Material	338	196	236	233	235
Stores & Spares	167	168	169	161	165
Power & Fuel	726	650	614	616	621
Staff Cost	157	113	98	99	116
Transportation	411	390	310	275	264
Oth Exp	193	186	162	187	186
Cost of prod.	1,993	1,703	1,588	1,571	1,587
Op. Profit per mt	637	790	607	385	312



JKLC's performance in this quarter was not in-line with our expectations, as heavy monsoons along with floods, adversely impacted its cement production and despatches during the quarter. However, normalcy has been restored and plant is running at full capacity.

JKLC's cement & clinker despatches tumbled by 7% YoY and 18% QoQ to 0.62 mn mt during the quarter. This is evident from the fact that the overall consumption level in Delhi was lower by 10.5%, Rajasthan by 9.8% and Gujarat by 28.3% on QoQ basis.

JKLC's net revenues improved by 30% YoY to Rs 1.6 bn, mainly driven by firm cement prices in northern region during the period. Cement realisations increased by 40% YoY to Rs 2,629/mt during the period under review.

However, most encouraging aspect of the quarter, was that cement realisations improved by ~5% QoQ, despite being traditionally lull quarter due to monsoons.

JKLC's power & fuel cost witnessed an increase of 17% YoY (Rs 726/mt vs Rs 622/mt). However, even on QoQ basis power & fuel cost was up by 12%, as higher amount of power and fuel was consumed in kiln and

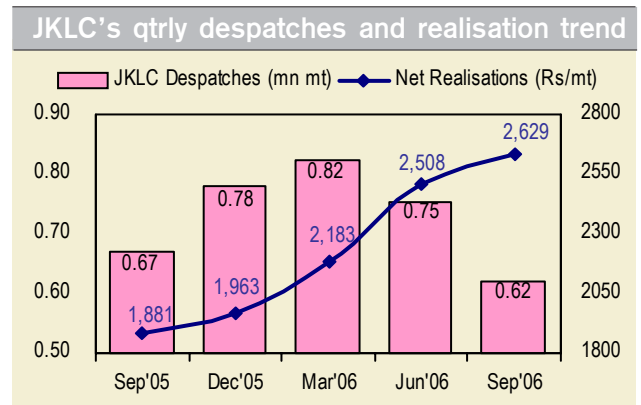
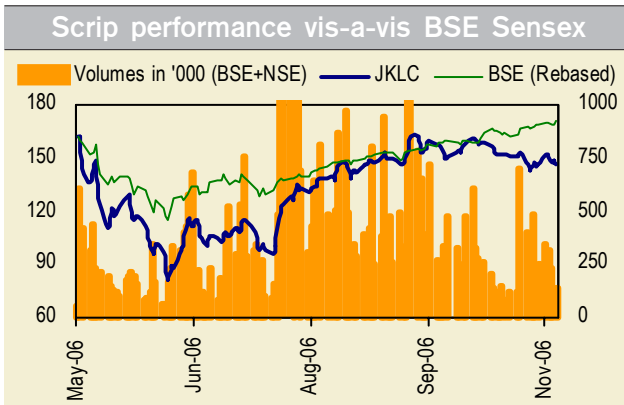
grinding unit, as raw material got wet (i.e. limestone, clinker & gypsum) during monsoon.

Freight and handling costs rose by 55% to Rs 411/mt on YoY basis, mainly due to the Supreme Court ruling on overloading of trucks.

Owing to the upsurge in net realisations, op. margins vaulted ~760 bps YoY to 24.2%, however OPM dipped by ~720 bps on QoQ basis. Operating profit per ton jumped twofold to Rs 637/mt in Q2FY07.

JKLC' net interest costs for the quarter stood at Rs 58 mn in Q2FY07, as against Rs 3 mn last year. This was mainly due to CDR scheme, where it was allowed deferment of interest payment till Dec'05. Depreciation cost declined by 13% in Q2FY07, due to write back of depreciation of ~Rs 26 mn pertaining to revalued assets, which was earlier charged to P&L, but now charged to revaluation reserve.

The company has not paid any tax during the quarter, as it will continue to remain under MAT for next 4-5 years. Increase in operating profits and lower depreciation charges, led to 174% YoY jump in net profits to Rs 234 mn during the quarter.



JKLC is currently focusing on improving its operating efficiencies and integrate its current operations, to trim down its operational cost. As a result, it has outlined major capex plans, which includes setting up 36 MW captive power plant and two grinding unit of 0.5 mn mt capacity each.

The company is currently sourcing its power requirement through state grid. Hence, to rationalise power cost, it is setting up 36 mw pet coke based CPP. The outlay estimated for CPP is Rs 1.5 bn, out of which Rs 1 bn would be funded through debt and rest through internal accruals & equity infusion by promoters. We expect post commissioning (Jun'07) of CPP, will result in savings of ~Rs 300-350 mn on an annualised basis.

The company has higher amount of clinker capacity vis-a-vis its cement capacity, which has forced it to sale clinker outside and restrict the blended cement proportion (46% in FY06/56% in Q2FY07) in total cement production, due to insufficient grinding capacity.

However, to capitalise on higher clinker capacity the company is setting up two grinding unit of 0.5 mn mt capacity each, out of which one is at the existing plant (Dec'06) and other is split grinding unit in gujarat (Dec'07). The estimated capex for setting up two grinding unit is Rs 1.1 bn, out of which Rs 0.45 bn will be funded via debt and rest through internal accruals & warrants. Post expansion, JKCL's total grinding capacity, would be 3.95 mn mt and we expect blended cement proportion to increase to ~80-85%.

To fund the above mentioned capex, JKLC did preferential allotment of 3.6 mn equity share to Fenner (India) at a price of Rs 97.5/share, raising Rs 350 mn, with equity capital increasing to Rs 571mn. It has also issued 4.1 mn warrants at Rs 97.5, that can be converted in equity shares within 18 months, leading to further dilution of equity capital to Rs 612 mn.

As compared to other players, JKLC has low EBIDTA/ton, mainly due to high power cost and lower proportion of blended cement. It is taking right steps by setting up CPP and grinding units. This will result in substantial savings on op. cost front, thereby positively impacting its EBIDTA/ton in coming years.

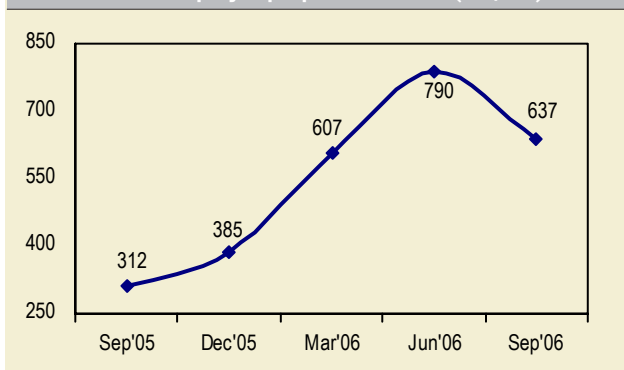
Cement demand-supply scenario continues to remain favorable in north India, due to strong demand and marginal capacity addition over the next 18 months. However, post FY08, we expect some pressure on capacity utilisation rate and cement prices considering the fact ~20-23mn mt of additional capacities will come on stream by FY09.

In FY07, we expect net revenues to rise by 24% YoY to Rs 7.2 bn and OPM to improve to 32.1%, on back of firm cement prices and commissioning of grinding Unit-I. However, full benefits would be visible in FY08, with the full year's operation for grinding Unit-I and commissioning of CPP and Unit-II. As a result, inspite of taking slightly conservative scenario of lower cement prices in FY08, net revenues should grow by 22% to Rs 8.8 bn and OPM to improve to 33.3%. We expect net profits to rise by 136% to Rs 1.3 bn in FY07, and by 33% to Rs 1.7 bn in FY08E.

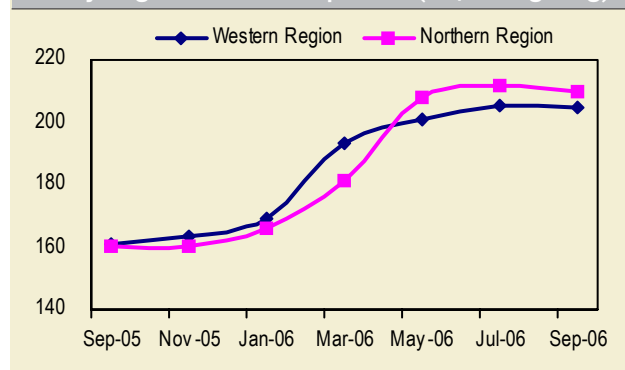
At CMP of Rs 145, JKLC is trading at a P/E of 6.3x, EV/Sales of 1.5x, EV/EBIDTA of 5.2x, discounting its FY07E earnings. JKLC is trading at an attractive EV/ton of \$81 on 3.45 mn mt capacity. If we consider the 3.95 mn mt capacity by Dec'07, then EV/ton is just \$ 72, which is at a substantial discount to its peers.

We believe that JKLC has ample scope to improve its operational efficiencies. It will benefit immensely from CPP and grinding unit. Hence, we maintain our 'BUY' recommendation on the stock, with a price target of Rs 200 on investment horizon of one year.

JKLC's qtrly op. profit trend (Rs/mt)



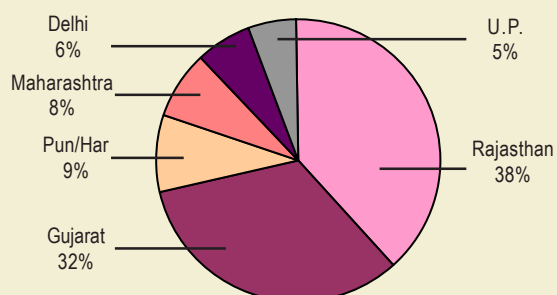
Mthly regional cement prices (Rs/50 kg bag)



Financial results for the quarter & half year ended Sep 30, 2006 (Standalone)

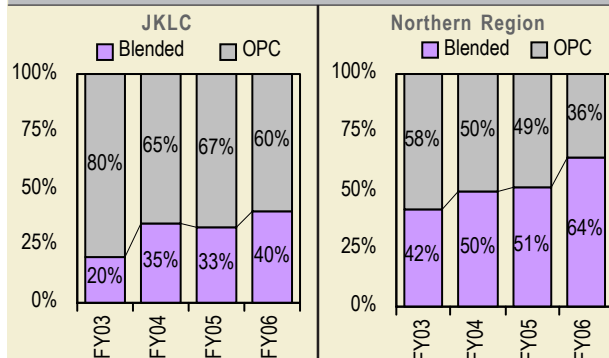
Particulars (Rs mn)	Quarter Ended			Half Year Ended			Yr Ended
	30/09/06	30/09/05	Gr %	30/09/06	30/09/05	Gr %	31/03/06
Gross Sales	1,877	1,520	23.5	4,058	3,033	33.8	7,000
Excise Duty	245	262	(6.4)	538	535	0.7	1,176
Net Sales	1,632	1,258	29.7	3,520	2,498	40.9	5,825
Total Expenditure	1,237	1,049	17.8	2,529	2,088	21.1	4,616
(Inc)/Dec in Stock	45	14		(6)	36		53
Con of Raw Material	165	141	17.2	365	274	33.2	631
Con of Stores, Spares & P.M	104	109	(4.9)	231	228	1.5	492
Power & Fuel	451	410	10.0	946	824	14.8	1,807
Staff Cost	97	77	27.3	183	152	20.1	310
Transport, Clearing & Fwd charges	255	177	44.2	549	348	57.4	817
Oth Exp	120	122	(2.0)	262	227	15.5	505
Operating Profit	396	209	89.4	990	410	141.5	1,209
Other Income	7	7	(5.4)	12	57	(79.3)	79
EBITDA	403	216	86.1	1,002	467	114.8	1,288
Depreciation	109	126	(13.4)	219	252	(13.1)	531
Interest	58	3	1,754.8	120	9	1,312.9	195
PBT	236	87	171.5	663	206	221.3	563
Provision for current tax	-	-		38	-		-
Provision for FBT	2	2		3	2		8
Net Profit	234	85	174.0	622	204	204.7	555
Equity Cap. (Face Value Rs 10/share)	571	553		571	553		498
EPS for the period (Rs.)	4.1	1.5	165.3	10.9	3.7	195.1	11.1
OPM(%)	24.2	16.6		28.1	16.4		20.8
NPM(%)	14.3	6.8		17.7	8.2		9.5
Clinker production (mn mt)	0.49	0.58	(16.7)	1.10	1.14	(3.7)	2.48
Cement despatches (mn mt)	0.56	0.61	(8.8)	1.26	1.25	0.2	2.68
Clinker despatches (lakh mt)	0.61	0.55	10.1	1.19	0.98	21.5	2.77
Net Realisations (Rs/mt)	2,629	1,881	39.8	2,563	1,851	38.5	1,934
Expenditure (as % of Net Sales)							
Con of Raw Material	12.9	12.3		10.2	12.4		11.8
Con of Stores, Spares & P.M	6.4	8.7		6.6	9.1		8.4
Power & Fuel	27.6	32.6		26.9	33.0		31.0
Staff Cost	6.0	6.1		5.2	6.1		5.3
Transport, Clearing & Fwd charges	15.6	14.1		15.6	13.9		14.0
Oth Exp	7.3	9.7		7.4	9.1		8.7

State wise sales mix of JKLC in FY06



Source: CMA

JKLC's v/s Northern region product mix



Source: CMA

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