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J K Cements

Outperformer | **Rs 168** | **Sensex: 14,903**

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'Powered' Growth

The Rajasthan-based JK Cement (JKCL) which was incorporated following the restructuring of JK Synthetics, primarily caters to the northern markets. From Q2 FY08 it would see substantial savings in power cost, following the commissioning of its petcoke and waste heat recovery-based power plants. This, along with a robust price outlook, would boost its earnings. The stock is attractively valued on an EV/ton ($83) and a PER (4x FY08E) basis, compared to its peers. We initiate coverage, with an OUTPERFORMER rating.

- JKCL is expected to register robust volumes even as the industry is faced with imminent shortage. It has added 0.5m tons in August '06 while an additional 0.4m tons will start flowing in October-November '07.
- JKCL has invested nearly Rs 2.5bn towards cost-cutting measures. These involve a 20-MW petcoke-based captive power plant, a 13.2-MW waste-heat-recovery plant, and replacing a 7.5-MW turbine with a 10-MW one. With the above measures, the company is expected to operate with 100% captive power. The benefits of significantly lower power costs would start flowing in from Q2 FY08.
- We expect the company to report a strong 42% bottom-line growth over FY07-FY09. However, free-cash flows are expected to turn negative from FY08 as the 3m-ton Karnataka plant would require an investment of Rs 10.5bn. Despite this, JKCL's D/E is expected to go up only marginally -- from 0.5x in FY08 to 0.8x the year following.
- At the current price, the stock quotes at a PER of 4x our FY08 estimates and at an EV/E of 2.9x. On EV/ton, it is valued at $83. We believe the current valuations to be extremely attractive and expect the Q2 FY08 results to act as a trigger for the stock. We initiate coverage, with an **OUTPERFORMER** rating.

Key Figures (Rs m)

Y/e March	'06	'07	'08E	'09E
Net Sales	8,737	12,333	14,882	16,826
EBITDA	1,320	3,287	5,258	6,383
PAT	326	1,782	2,953	3,585
PAT Gr. (%)	*417.6*	*446.8*	*65.7*	*21.4*
EPS (Rs)	4.7	25.5	42.2	51.3

Key Ratios (%)

Y/e March	'06	'07	'08E	'09E
EBITDA Mar.	*15.1*	*26.6*	*35.3*	*37.9*
RoCE	*13.4*	*30.8*	*44.2*	*36.8*
RoE	*16.0*	*40.8*	*44.9*	*37.2*

Valuations (x)

Y/e March	'06	'07	'08E	'09E
PER	36.0	6.6	4.0	3.3
EV / Sales	1.7	1.2	1.0	1.2
EV / EBITDA	11.3	4.3	2.9	3.2
MCap / Sales	1.3	1.0	0.8	0.7

Key Data

Bloomberg Code	JKCE@IN
Reuters Code	JKCE.BO

Shareholding Pattern *(%)*

Promoters	61.6
Foreign	14.8
Inst./non-Promoters	13.1
Public & Others	10.5

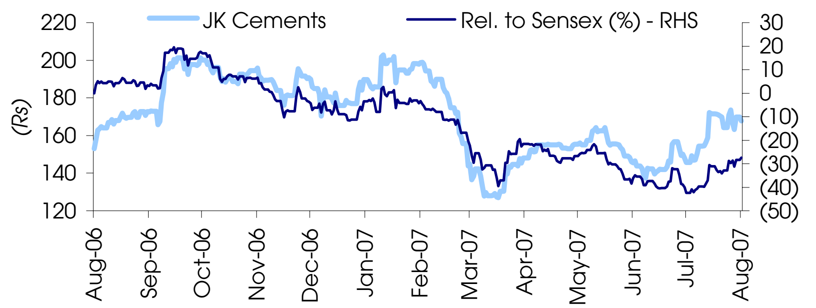
Price Relative to Sensex *(%)*

1 month	15.5
6 months	(18.8)
12 months	(27.5)

Shares Outstanding	70m
Market Cap	Rs 11,734m
	$ 290m
Average Volume (3 months)	90,034 shares

(Price as on August 6, 2007)

Stock price performance



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Key player in a deficit market

North to continue seeing impressive demand

North operating rates highest in India

With installed capacity of about 4m tons of grey cement and about 0.5m tons of white cement, JKCL is the sixth-largest player in the northern market. Last year, through de-bottlenecking it added 0.5m tons to its grey cement capacity. This would boost its volume growth this year. The company's plants, located in Nimbehera and Mangrol in Rajasthan, primarily cater to the northern markets, where it has about an 8% market share, with Haryana, Rajasthan, Delhi, Punjab and J&K being its key markets.

Incremental demand in north should be able to absorb fresh capacities planned

At present, the northern region (including UP) consumes around 46m tons of cement. We expect this region to grow by around 10%, driven by the strong boom in real estate and additional demand for the Commonwealth Games. This translates to an incremental consumption of around 4.5m tons each year. While currently this region is facing a shortage (FY07; capacity utilization, including inoperative capacities, in this region was 99.1%), we feel the market would easily absorb planned capacities, likely to come up by FY08. Further, the large capacities expected to be commissioned in FY09 are also likely to be delayed. Consequently, we do not expect the northern region to face any pricing pressure till the end of FY09.

Volume growth expected through de-bottlenecking and acquisition of Nihon Nirman

JKCL had added 0.5m tons in August '06 and is expected to add a further 0.4m tons through Nihon Nirman by December '07. This would ensure volume growth when the industry is faced with supply tightness.

Table 1: JKCL key markets and market share *(%)*

	Company's Market Share	% of Total Dispatches	States 9 yr Consumption CAGR	States Share of Total Consumption
North				
UP & UTC	4.8	16.1	8.9	12.2
Haryana	20.0	29.4	12.2	3.8
Punjab	4.3	7.4	6.0	4.4
Rajasthan	8.9	21.5	9.9	6.1
Delhi	14.5	11.4	3.2	2.0
J&K	12.8	4.2	13.0	0.8
West				
Gujarat	1.6	4.3	4.5	6.8
Central				
MP & CTG	3.3	5.6	9.8	7.0
Total	**2.5**	**100.0**	**8.1**	**100.0**

Source: CMA, PL Research

Efficiency improvement and capex on track

Cost-cutting measures to bear fruit in FY08

Commissioning of captive power plant to significantly reduce power cuts

A high degree of dependence on power from the grid led to high power and fuel costs, the key reason for lower margins than its peers. Consequently, to reduce its dependence on grid power (by setting up captive power plants), the company undertook an aggressive restructuring excise. It planned a 20-MW petcoke-based power plant and a 13.5-MW waste-heat-recovery-based power plant at Nimbehera. Further, it is to replace its 7.5-MW turbine at its power plant at Bamania, Rajasthan, with a 10-MW one.

The petcoke-based power plant has already been commissioned (in July 2007, currently undergoing trial runs), while the waste-heat-recovery plant will be commissioned in phases between August and November, 2007, since it would have to be hooked up with the kilns as and when scheduled maintenance shut-downs are undertaken.

Table 2: Captive Power Consumption and Per Unit Rate

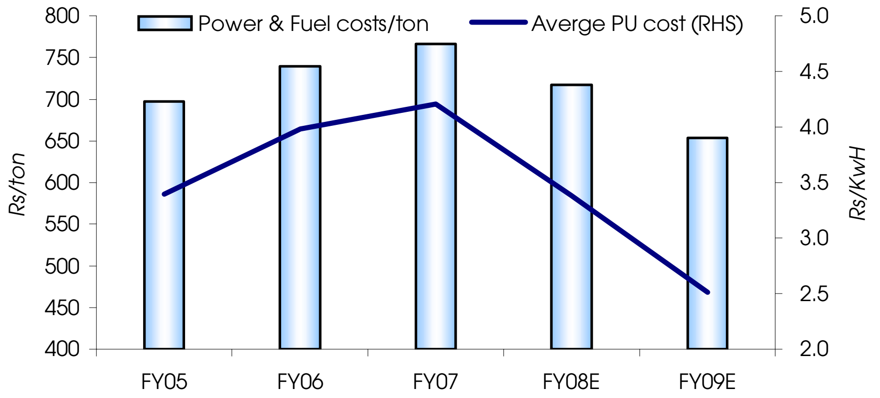
	FY08E		FY09E	
	MU	Rate / Unit	MU	Rate / Unit
13-MW Waste Heat Recovery CPP	28	0.35	84	0.35
20-MW Petcoke-based CPP	84	2.32	127	2.25
Total / Average Rate	112	1.83	210	1.49

Source: PL Research

JKCL will be 100% captive in terms of power by FY08 which will boost margins

On the commissioning of these plants, we expect a significant reduction in the per-unit cost of power. While the average cost at present is around Rs 4.50, the cost of power from the petcoke unit is expected to be just Rs 2.25; at the waste-heat-recovery plant, it is even lower -- about Rs 0.35. Consequently, the average cost of power from its captive plants would be brought down to less than Rs 2 per unit. We feel that the lower cost of power, along with the strong cement-price outlook, would significantly contribute to margin betterment.

Chart 1: JKCL Power and Fuel Costs



Source: Company, PL Research

Capex plans and funding on track

Work on the 3m-ton plant at Karnataka proceeding as per schedule

JKCL has already announced plans to set up a 3m-ton plant in Karnataka, to be located in Mugdol and in proximity to the Bangalore market. Further, the nearest cement plant is located at distance of 600km from this proposed location. Currently, most of the land has already been acquired through a subsidiary, and orders for equipment have already been placed (in August '06). We expect this plant to be commissioned in the fourth quarter of FY09.

The unit would have clinker capacity of 2.3m tons and, based on the blend of fly ash and slag, production could go up to as high as 3.5m-tons. We expect the blending ratio to be at a conservative 50%.

Karnataka consumes around 11.2m tons of cement annually. It hosts installed capacity of 12.5m tons (including Kesoram's 1.7m tons, commissioned in April '07). While incremental demand in the next two years is expected to be around 2.5m tons, JK proposes to dispatch cement to the neighboring markets of Maharashtra and AP (currently, there are no fresh capacity announcements in Maharashtra and Karnataka other than ACC Wadi, expected to be commissioned by mid-2009). Consequently, we believe that the company will not experience any difficulty in selling cement in these markets.

The Karnataka expansion would require about Rs 4.3bn of additional borrowings

The total cost of the Karnataka project is expected to be around Rs 10.5bn. With prices reigning at their all-time highs and expected to rise further, JKCL is likely to generate operating cash flows of about Rs 8.4bn over the next two years. The company is expected to borrow around Rs 4.3bn to finance the balance project requirement.

While the cost of setting up captive power plants (around Rs 2.5bn) would be met through the equity issue in February '06, operating cash flows for FY07, amounting to around Rs 1.7bn would be used to part finance the Nihon Nirman acquisition and upgradation, amounting to Rs 1.1bn.

Oversupply concerns overplayed

Cement prices to remain firm till FY09 given likely delays in commissioning of new capacities

Driven by high cement prices and the consequent cash generation, cement manufacturers have gone into aggressive capacity-expansion mode. Consequently, over the next three years, about 85m tons of capacities are likely to be commissioned. However, our interaction with industry players leads us to believe that most of these plans are likely to be delayed, typically from a

- Delay in regulatory and environmental clearances (JKCL's Karnataka plant was delayed by about six months);
- Delay in land acquisition (Grasim's Kotputli plant)
- Delay in equipment supplies, given that most equipment suppliers have their order books full. An order placed with an equipment supplier currently is expected to be delivered only in 2010-11.

Further, most of the capacities are likely to be commissioned during the year, which means that effective production capacity for the year would be much lower than rated capacity.

In the northern markets, we expect 5m tons to be commissioned in FY08 and about 6m tons in FY09. Consequently, we expect cement prices to remain robust till the end of FY09.

Table 3: All-India demand-supply scenario *('000 tons)*

	2006	2007	2008E	2009E
Capacity	159,800	168,240	185,330	206,610
Inoperative Capacity	7,428	7,430	7,430	4,843
Effective Capacity	152,372	160,810	177,900	201,767
Production	141,805	155,647	168,099	188,271
Change (%)	*11.2*	*9.8*	*8.0*	*12.0*
Utilisation (%)	*93.1*	*96.8*	*94.5*	*93.3*
Total Availability	141,805	155,647	168,099	188,271
Total Dispatches	141,594	155,243	169,215	189,521
Change (%)	*11.4*	*9.6*	*9.0*	*12.0*
Exports	6,007	5,869	5,928	5,987
Domestic Consumption	135,587	149,374	163,287	183,534
Change (%)	*10.2*	*10.2*	*9.3*	*12.4*

Source: CMA and PL Research

White cement - low growth but stable business

After Grasim, JKCL is the country's second-largest producer of white cement, with a 0.4m-ton capacity, located at Gotan in Rajasthan.

The white cement industry has grown by around 4% over the last ten years. White cement is seen as a high-end product, primarily for aesthetic use. Further, unlike grey cement, which has no substitute, white cement constantly faces a threat from substitutes such as marble and the ceramic-tile industry.

The white cement production process is slightly different from that of grey cement and involves a higher cost of production.

- Mining costs are higher, as mechanized mining cannot be used: impurities such as iron, manganese, titanium and chromium have to be physically removed from limestone.
- China clay is then mixed with limestone and ground before being fed to the kiln.
- Coal-based fuels cannot be used to heat kilns as ash residue would affect the 'whiteness' of clinker. Hence, petroleum-based fuels, which are more costly, are used in kilns.
- Cooling of clinker needs the absence of oxygen to prevent colour addition to the clinker due to oxidization.

The white cement industry, despite having only two major players, Grasim and JKCL, is expected to see only a moderate rise in both volumes and prices, mainly due to stiff competition from substitutes. JKCL plans to focus on value-added products such as wall putty, which would help in achieving higher realizations.

Table 4: White Cement Operating Parameters *('000 tons)*

		FY06	FY07E	FY08E	FY09E
Capacity		350	400	400	400
Production		227	249	254	262
Sales		221	247	254	262
Gross Realizations	(Rs / ton)	7,219	7,342	7,599	7,751

Source: PL Research

We expect white cement volumes to grow by around 3% for both FY08 and FY09. We also expect white cement realizations to be up by about 3.5% for FY08 and by around 2% for FY09. We expect this division to maintain margins of about 30% for the next couple of years.

42% earnings CAGR expected

Table 5: Key Assumptions

	FY07P	FY08E	FY09E
Grey Cement Sales (m tons)	3.6	3.9	4.3
Realisations (Rs / ton)	3,555	4,088	4,211
White Cement Sales ('000 tons)	247	254	262
Realistions (Rs / ton)	7,342	7,599	7,751
Raw Materials (Rs / ton)	316	319	329
Power Costs (Rs / ton)	400	317	231
Power and Fuel Costs (Rs / ton)	797	742	673
Freight Costs (Rs / ton)	629	654	680

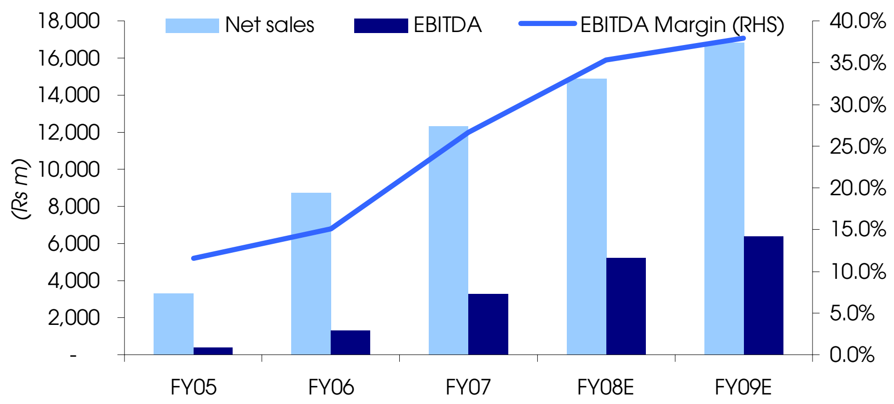
Source: PL Research

Revenues driven primarily by volumes

The company added 0.5m tons in August '06, enhancing installed capacity to 4.05m tons. In January '07, JKCL acquired Nihon Nirman. It plans to convert this to grey cement capacity of 0.4m tons by December '07. Consequently, we expect it to post healthy volume growth of 7% and 11% for FY08 and FY09, respectively. Further, with cement prices touching all-time highs in most regions, and with demand expected to absorb incremental supplies till FY09, we expect a sharp rise in cement prices from October '07. Consequently, we have assumed a 15% rise in realizations for FY08; for FY09; and we have assumed conservative 3% better realizations.

JKCL's current installed capacity is 4.05m tons. However, this rated capacity is on the basis of a 70:30 PPC to OPC mix. Since the company is currently receiving government orders (which include only OPC cement) at prices that are Rs 20 per bag higher than the market price of PPC, it has raised the share of OPC production to 50%. Consequently, despite an effective capacity of 4.15m tons (including Nihon Nirman) for FY08, we have assumed sales of only 3.9m tons.

Chart 2: Sales, EBITDA and EBITDA Margin Movements

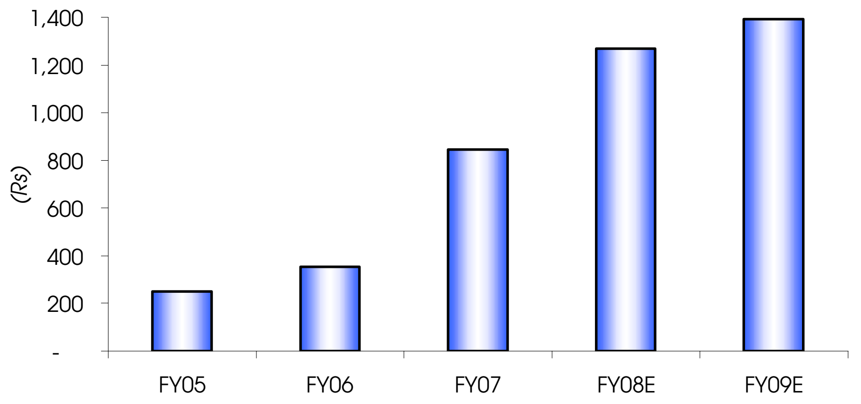


Source: Company data, PL Research

Savings in power cost to be visible from Q2 FY08

Cost savings along with cement price improvements are likely to boost margins for FY08 and FY09. With power plants being commissioned from August-December '07, part of the benefit of lower costs would accrue in FY09 too. Further, a 7.5-MW power plant in the white cement plant at Gotan (to be commissioned in June '08) would also aid margin expansion for FY09. We expect JKCL's EBITDA/ton to jump from Rs 845 in FY07 to Rs 1,393 in FY09.

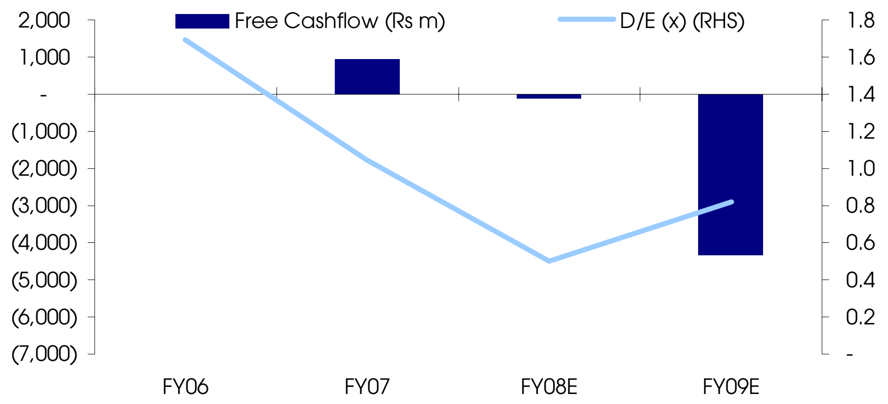
Chart 3: EBITDA/ ton



Source: Company data, PL Research

Interest cost is expected to grow at a 9% CAGR till FY09, despite Rs 4.3m in borrowing for the Karnataka expansion, as about Rs 500m interest would be capitalized on the plant being commissioned in Q4 FY09. With the tax rate at 35% over the next two years, we expect PAT to grow by an impressive 42% CAGR over FY07-09.

Chart 4: Negative FCF FY08 onwards due to capex for Karnataka plant

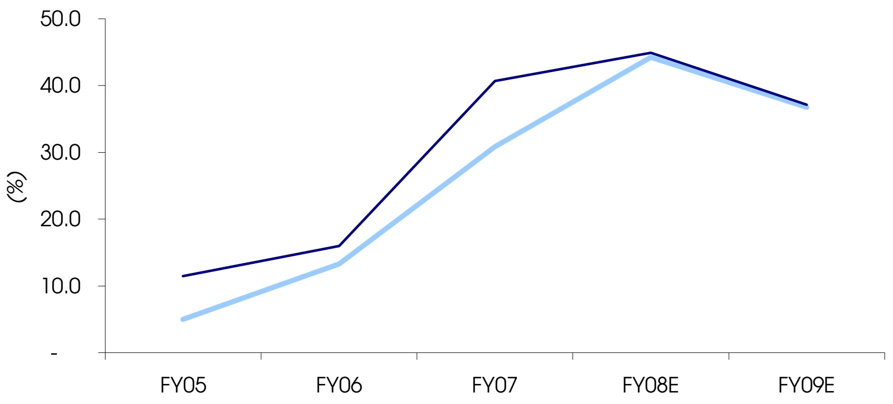


Source: Company Data, PL Research

D/E to rise marginally despite capex

The cost of the Karnataka project is around Rs 10.5bn, which includes a 50-MW captive power plant. The company is expected to borrow Rs 4.3bn for the project; the balance would be met through internal accruals. Consequently, the FCF would turn negative both in FY08 and in FY09. As a result, the company's D/E is also likely to rise to 0.8x in FY09 after falling to about 0.5x in FY08 from the current 1.05x.

Chart 5: RoCE and RoE Trends



Source: Company Data, PL Research

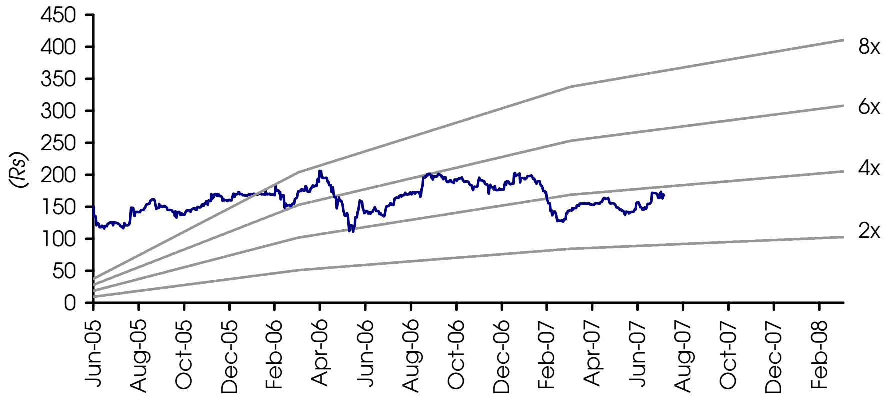
Buoyed by robust cement prices over the last couple of years, JKCL's return ratios saw a significant jump till FY07. However, large capex for the Karnataka plant would result in a dip in return ratios, as the returns from investment in Karnataka would start flowing in only from FY10.

Valuations

Valuations are inexpensive

At the current price, the stock trades at a PER of 4x and 3.3x our FY08 estimates. On an EV/EBITDA basis, it is valued at 2.9x and 3.2x our FY08 and FY09 estimates, respectively. On an EV/ton, it quotes at $83. Given the growth JKCL is likely to report over the next couple of years, we feel the current valuations are extremely cheap.

Chart 6: JKCL Rolling-PE Band



Source: MetaStock, PL Researchs

Fears of Government intervention seems to be behind us and cement stocks will be driven by price outlook

Cement stocks had seen sharp correction since January '07 due to the government's consistent efforts to control prices. Despite the subsequent price-freeze agreement with the government, cement prices in the south sharply rose. Given the Finance Minister's categorical statement at end-June '07 on the non-existence of a price freeze (implicitly conceding the Government's inability to moderate prices), we feel that the uncertainty over government intervention is behind us. We expect the strong price outlook to drive up valuations for the sector.

Table 6: Relative Valuations of Peers

	CMP	EPS (Rs)		PER (x)		EV/E (x)		EV/ton
	(Rs)	FY08E	FY09E	FY08E	FY09E	FY08E	FY09E	$
ACC	979	83.3	96.1	11.8	10.2	7.2	6.0	190
GACL	126	10.2	10.9	12.4	11.6	7.9	6.7	241
UTCL	891	79.9	105.3	11.2	8.5	7.5	5.6	177
India Cements	225	30.3	31.6	7.4	7.1	5.5	4.1	147
JK Cement	168	42.2	51.3	4.0	3.3	2.9	3.2	83
Shree Cement	1,268	136.9	207.7	9.3	6.1	4.7	3.0	108

JKCL may not be strictly comparable with ACC, ACL (Ambuja Cements) or UltraTech, given their size and pan-India presence. Be that as it may, JKCL quotes at a significant discount to other regional players such as Shree Cement and India Cements. Historically, this discount was justified as the company's efficiency levels and margins were significantly poorer than its peers. However, with the company's focus on cost reduction and efficiency improvements expected to bear fruit from Q2 FY08, we believe that the stock is likely to be re-rated. We expect Q2 and Q3 FY08 results to act as an immediate trigger for the stock performance. While we expect the discount to more efficient players such as Shree Cement (which operates in the same markets) to continue, this discount is likely to shrink, as JKCL's margins begin to see substantial improvements.

At the current valuation we feel that the stock is grossly undervalued and, on the basis of an EV/ton of Rs 103, an EV/E of 3.6x and a PER of 5.2x FY08 estimates, we target a price of around Rs 220 over the next 12 months. This is about a 30% upside from the current levels. Consequently, we initiate coverage, with an OUTPERFORMER rating.

Financials

Income Statement

(Rs m)

Y/e March	FY06	FY07	FY08E	FY09E
Net Sales	**8,737**	**12,333**	**14,882**	**16,826**
Expenditure				
Raw Material Consumed	748	1,210	1,322	1,508
Other Manufacturing Expenses	948	1,043	1,099	1,183
Power and Fuel	2,856	3,098	3,079	3,085
Personnel Expenses	412	488	537	563
Selling and Distribution Expenses	282	406	490	554
Other Expenses	294	359	384	403
Freight	1,877	2,444	2,713	3,147
Total Expenditure	7,417	9,047	9,623	10,444
EBITDA	**1,320**	**3,287**	**5,258**	**6,383**
EBTIDA Margin (%)	*15.1*	*26.6*	*35.3*	*37.9*
Depreciation & Amortisation	310	332	380	513
Other Income	94	156	117	118
EBIT	**1,104**	**3,111**	**4,996**	**5,988**
Less: Gross Interest	582	395	453	472
Recurring Pre-tax Income	**522**	**2,716**	**4,543**	**5,516**
Total Tax	196	934	1,590	1,931
Tax Rate (%)	*37.6*	*34.4*	*35.0*	*35.0*
Net Income (Reported)	**326**	**1,782**	**2,953**	**3,585**
Net Income (Recurring)	**326**	**1,782**	**2,953**	**3,585**

Significant jump in EBITDA Margin aided by cost savings and firm prices

Balance Sheet

(Rs m)

Y/e March	FY06	FY07	FY08E	FY09E
ASSETS				
Current Assets, Loans & Advances				
Cash & Bank balance	2,854	2,950	590	620
Inventory	840	1,255	1,241	1,378
Sundry Debtors	461	743	815	922
Loans and Advances	927	750	758	767
Operational	927	750	758	767
Other Current Assets	12	-	-	-
Total Current Assets	5,094	5,698	3,405	3,687
Current Liabilities & Provisions				
Current Liabilities	1,797	1,767	1,847	1,997
Sundry Creditors	1,147	1,235	1,313	1,425
Other Current Liabilities	650	532	534	572
Provisions	126	250	355	372
Total Current Liabilities & Provisions	1,923	2,017	2,202	2,369
Net Current Assets	3,170	3,681	1,203	1,317
Fixed Assets				
Gross Block	9,592	10,342	12,442	23,446
Less Accumulated Depreciation	612	922	1,298	1,807
Net Block	8,980	9,420	11,144	21,639
Add: Capital Work in Progress	569	600	2,500	400
Less: Revaluation Reserve	3,184	3,056	2,909	2,763
Total Fixed Assets	6,365	6,964	10,735	19,276
Total Assets	**9,536**	**10,645**	**11,938**	**20,593**
LIABILITIES AND SHAREHOLDERS' EQUITY				
Borrowings				
Short Term Debt	1,390	1,250	1,225	1,200
Long Term Debt	4,431	4,010	2,570	7,877
Total Borrowings	5,822	5,259	3,794	9,077
Deferred Tax Liability	174	181	188	196
Share Capital				
Paid up Equity Share Capital	699	699	699	699
No. of Shares outstanding (mn)	70	70	70	70
Face Value per share (Rs)	10	10	10	10
Reserves & Surplus				
Share Premium	2,590	2,590	2,590	2,590
General & Other Reserve	3,453	4,990	7,594	10,812
Less: Misc. Exp. not written off	19	19	19	19
Less: Revaluation Reserve	3,184	3,056	2,909	2,763
Net Worth	3,540	5,205	7,955	11,320
Total Liabilities & Shareholders' Equity	**9,536**	**10,645**	**11,938**	**20,593**

Karnataka plant to be commissioned by Q4 FY09 resulting in sharp increase in gross block

Cash Flow

(Rs m)

Y/e March	FY06	FY07	FY08E	FY09E
Cash Flow from Operating Activities				
Reported Net Income	326	1,782	2,953	3,585
Add:				
Depreciation & Amortisation	434	310	376	509
Provisions	126	123	105	17
Deferred Taxes	138	215	545	662
Less:				
Other Income	94	156	117	118
Operating Cash Flow before Working Capital change (a)	**930**	**2,274**	**3,862**	**4,656**
Changes in Working Capital				
(Inc.) / Dec. in Inventories	(174)	(415)	14	(137)
(Inc.) / Dec. in Sundry Debtors	(39)	(282)	(72)	(107)
(Inc.) / Dec. in Opt. Loans & Adv.	(30)	177	(8)	(9)
(Inc.) / Dec. in Other Current Assets	(7)	12	-	-
Inc. / (Dec.) in Sundry Creditors	44	88	79	112
Inc. / (Dec.) in Other Current Liab.	235	(118)	1	38
Working Capital Inflow / (Outflow) (b)	**30**	**(538)**	**13**	**(102)**
Net Cash flow from Operating Activities (a) + (b)	**961**	**1,736**	**3,875**	**4,554**
Cash Flow from Capital commitments				
Purchase of Fixed Assets	(959)	(781)	(4,000)	(8,904)
Cash Inflow/(outflow) from capital commitments (c)	(959)	(781)	(4,000)	(8,904)
Free Cash flow after capital commitments (a+b+c)	**2**	**955**	**(125)**	**(4,350)**
Other Income	94	156	117	118
Net Cash flow from Invt. Activites (d)	**94**	**156**	**117**	**118**
Cash Flow from Financing Activities				
Issue of Share Capital during the year	200	-	-	-
Proceeds from fresh borrowings	(591)	(563)	(1,465)	5,283
Dividend paid including tax	(120)	(245)	(350)	(367)
Others	2,588	(208)	(538)	(654)
Net Cash flow from Financing Activites (e)	**2,077**	**(1,015)**	**(2,352)**	**4,262**
Total Increase / (Decrease) in Cash (a + b + c + d + e)	**2,173**	**96**	**(2,360)**	**30**

Free Cash Flow turns negative due to capex at Karnataka

Key Ratios

Y/e March	FY06	FY07	FY08E	FY09E
Per Share Data (Rs)				
Diluted Recurring EPS	4.7	25.5	42.2	51.3
Diluted EPS	4.7	25.5	42.2	51.3
Recurring CEPS	9.1	30.2	47.7	58.6
FCPS Post Capex	0.0	13.7	(1.8)	(62.2)
Reported Book Value (BV)	5.1	30.7	72.2	122.4
DPS	1.7	3.5	5.0	5.3
Valuation Ratios (x)				
Diluted Price Earning Ratio	36.0	6.6	4.0	3.3
Price to Recurring CEPS	18.5	5.5	3.5	2.9
Price to Book Value	32.9	5.5	2.3	1.4
Price to Adjusted Book Value	32.9	5.5	2.3	1.4
Price to Sales Ratio	0.0	0.0	0.0	0.0
EV / EBITDA	11.3	4.3	2.9	3.2
EV / Total Operating Income	1.7	1.2	1.0	1.2
EV / Operating FCF (Pre-Capex)	15.5	8.2	3.9	4.5
Dividend Yield (%)	*1.0*	*2.1*	*3.0*	*3.1*
Growth Ratios (% YoY)				
Diluted Recurring EPS Growth	*269.6*	*446.8*	*65.7*	*21.4*
Diluted Recurring CEPS Growth	*140.7*	*232.5*	*57.6*	*23.0*
Total Operating Income Growth	*165.2*	*41.2*	*20.7*	*13.1*
EBITDA Growth	*245.4*	*149.0*	*60.0*	*21.4*
Recurring Net Income Growth	*417.6*	*446.8*	*65.7*	*21.4*
Operating Ratios (%)				
EBITDA Margins	*15.1*	*26.6*	*35.3*	*37.9*
EBIT Margins	*12.6*	*25.2*	*33.6*	*35.6*
Recurring Pre-tax Income Margins	*5.9*	*21.7*	*30.3*	*32.6*
Recurring Net Income Margins	*3.7*	*14.3*	*19.7*	*21.2*
Raw Material Consumed / Sales	*8.6*	*9.8*	*8.9*	*9.0*
Effective Tax Rate	*37.6*	*34.4*	*35.0*	*35.0*
Return / Profitability Ratios (%)				
RoCE Overall	*13.4*	*30.8*	*44.2*	*36.8*
RoIC	*20.3*	*45.7*	*55.2*	*40.8*
RoNW	*16.0*	*40.8*	*44.9*	*37.2*
Dividend Payout Ratio	*36.7*	*13.7*	*11.8*	*10.2*
Solvency Ratios / Liquidity Ratios (%)				
Debt Equity Ratio (D/E)	*1.7*	*1.05*	*0.50*	*0.82*
Long Term Debt / Total Debt	*76.8*	*77.0*	*69.3*	*87.1*
Net Working Capital / Total Assets	*3.3*	*6.9*	*5.1*	*3.4*
Int. Coverage Ratio-based on EBIT	*1.9*	*7.9*	*11.0*	*12.7*
Current Ratio	*1.3*	*1.5*	*0.8*	*0.8*

Annexure I : Q1 FY08 Results Review

Table 7: Quarterly Table *(Rs m)*

Y/e March	Q1 FY08	Q1 FY07	yoy gr. (%)	Q4 FY06	qoq gr. (%)
Net Sales	**3,264**	**2,795**	***16.8***	**3,666**	***(11.0)***
Raw Material	312	260	*20.0*	320	*(2.5)*
Staff Costs	152	122	*24.6*	123	*23.6*
Power & Fuel	724	736	*(1.6)*	855	*(15.3)*
Freight	585	591	*(1.0)*	734	*(20.3)*
Other Expenses	526	429	*22.6*	517	*1.7*
Total Expenditure	2,299	2,138	*7.5*	2,549	*(9.8)*
EBITDA	**965**	**657**	***46.9***	**1,117**	***(13.6)***
EBITDA margin (%)	*29.6*	*23.5*		*30.5*	
Depreciation	91	82	*11.0*	87	*4.6*
Other income	16	7	*128.6*	34	*(52.9)*
EBIT	**890**	**582**	***52.9***	**1,064**	***(16.4)***
Interest	91	82	*11.0*	92	*(1.1)*
PBT	**799**	**500**	***59.8***	**972**	***(17.8)***
Tax	274	170	*61.2*	358	*(23.5)*
Tax rate (%)	*34.3*	*34.0*		*36.8*	
Reported PAT	**525**	**330**	***59.1***	**614**	***(14.5)***

Table 8: Operating Parameters

Y/e March	Q1 FY08	Q1 FY07	yoy gr. (%)	Q4 FY06	qoq gr. (%)
Volume (mn te)	0.9	1.0	*(6.0)*	1.0	*(11.0)*
Net Realisations (Rs/te)	3,563	2,869	*24.2*	3,561	*0.1*
EBITDA/ te (Rs/te)	1,053	674	*56.2*	1,085	*(2.9)*

Top line driven by higher realistions

JKCL's top line registered a growth of 16.8% yoy mainly aided by 24.2% yoy growth in realizations. However, volumes dipped by 6% on account of maintenance shutdown undertaken at JKCL's plants (scheduled for Q4 FY07 but postponed to Q1 FY08 on catering to strong Q4 demand) during the first quarter. Though, the company's average net realizations remained flat qoq, grey cement realizations were up about Rs 4/bag despite the operation of the 'price freeze" during the first quarter.

606-bp EBITDA expansion

Total costs were up just 7.5%. During the quarter, both power and freight costs per ton saw a moderate rise of 5% yoy while raw material costs per ton (excluding stock adjustment) was up by 6% yoy. With costs remaining largely stable, higher realizations were able to offset the impact of lower volumes on account of the plant shutdown, boosting EBITDA margins 606bp to 29.6%. JKCL's EBITDA/ton also improved from Rs 674 to Rs 1,053 in Q1 FY08. Interest and depreciation both grew 11% each. Helped by a 128% rise in 'other income', the company posted PAT of Rs 525m, a 59% yoy jump.

JKCL may see muted volumes during Q2 FY08 too, as it would have to undertake shutdowns in order to hook up the waste-heat-recovery power plant with the kilns. However, with the 20-MW pet coke-based power plant already undergoing trial runs, we expect savings in power costs to start from Q2 FY08.

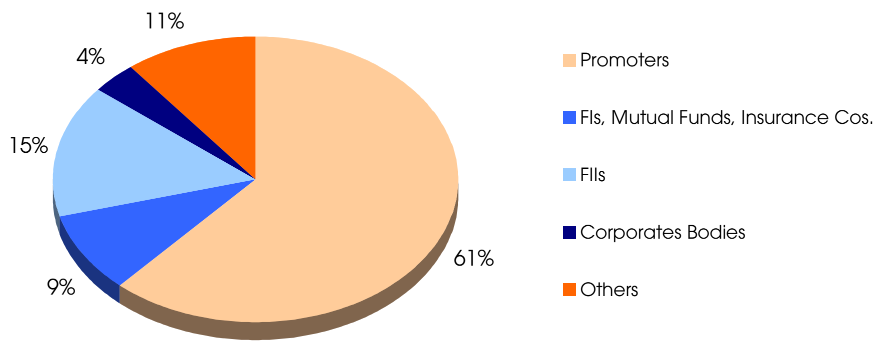
Annexure II: Company Profile

Background

As part of the restructuring exercise of the loss-suffering JK Synthetics, its cement division was spun off in 2004 as a separate entity, JKCL. The company produces both grey and white cement. Its key markets are in the north, where it is the sixth-largest player. After Grasim, it is also the second=largest producer of white cement in India.

JKCL operates two grey cement plants -- at Nimbahera and Mangrol in Rajasthan, with a total installed capacity of 4.05m tons. The Nimbahera plant, which was commissioned in 1974, with installed capacity of 0.3m tons capacity was upgraded to 0.42m-tons in 1979. In 1982, a third line was commissioned and further upgraded, taking total capacity to 1.64m tons by 1987. Currently, Nimbahera has an installed capacity of 3.3m tons. The Mangrol plant, which was commissioned in 2001, has an installed capacity of 0.75m tons. JKCL also operates a 0.4m-ton white cement plant, located at Gotan in Rajasthan.

Chart 7: Shareholding Pattern



Source: BSE

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PL's Recommendation Scale

BUY	:	> 15% Outperformance to BSE Sensex	**Outperformer**	:	5 to 15% Outperformance to Sensex
Market Performer	:	-5 to 5% of Sensex Movement	**Underperformer**	:	-5 to -15% of Underperformace to Sensex
Sell	:	<-15% Relative to Sensex			