

JK Cement

High costs burden margins

White cement business insulates downside

JK Cement (JKCEM) reported a strong 25% YoY growth in its Q4FY10 net revenues, led by a 23.8% (YoY) growth in grey cement volumes and 17.8% in white cement volumes besides a 1.3% expansion in blended realizations. The EBITDA for the quarter, however, declined 18.8% to INR1,038mn due to cost pressures. The increase in power, fuel and freight costs was the main reason for the spurt in the cost of goods sold. The adjusted PAT for the quarter declined 26.6% YoY to INR439mn as a result of the lower EBITDA and higher interest as well as depreciation expenses.

Brownfield capacity addition in North

The company is planning to hike the production capacity in the North by way of a brownfield expansion at its existing Mangrol plant by 2.2mn tonnes. The brownfield expansion is likely to be completed by September 2012. JKCEM is also considering the installation of a grinding unit in the North. Post the implementation of these plans, the total production capacity of JKCEM (in the North) would touch 7mn tonnes while the overall capacity would reach 10mn tonnes per annum. We have revised our estimates to factor in the additional capex for these projects.

Continue to maintain BUY with a target price of INR220

We expect margins for cement companies to be under pressure in the medium term as the industry is all set to witness surplus, leading to subdued cement prices. The rising cost pressure coupled with the overcapacity scenario (disallowing companies to pass on the cost push) might dent margins of cement companies going forward. However, for JK Cement, the volume growth in grey cement and its presence in the premium white cement business may help it partially offset the cost pressures. Besides, the company is also trading at more than 50% discount to its replacement cost and (more than) 60% discount to its large cap peers. We maintain our BUY rating on JK Cement with a revised target price of INR220 (based on EV/tonne of USD62). We have revised our target price to factor in the additional debt that will be raised as capex of the brownfield capacity.

Rating : Buy

Target Price : INR220

Upside : 21%

CMP : INR182 (as on 1 June 2010)

Key data

Bloomberg /Reuters Code	JKCE IN/JKCE.BO
Current /Dil. Shares O/S (mn)	69/69
Mkt Cap (INRbn/US\$mn)	12.8/271.7
Daily Vol. (3M NSE Avg.)	49,804
Face Value (INR)	10

1 US\$= INR46.4

Source: Bloomberg; * As on 1 June 2010

Price & volume



Source: Bloomberg

Share holding (%)	Q1FY10	Q2FY10	Q3FY10	Q4FY10
Promoter	63.9	64.9	65.3	65.3
Institutional Investors	19.5	19.6	20.0	18.9
Other Investors	4.3	4.3	3.8	4.2
General Public	12.4	11.3	10.9	11.6

Source: Bloomberg

Price performance (%)	3M	6M	12M
Sensex	0.9	(3.6)	11.7
JK Cement	5.4	33.0	75.4
Shree Cement	(6.6)	10.6	91.2
Orient Paper	20.7	18.9	10.1
JK Lakshmi	(15.9)	(6.4)	15.9

Y/E March (INR mn)	Q4FY10	Q4FY09	YoY(%)	Q3FY10	QoQ(%)	FY10
Net Sales	5,384	4,305	25.0	4,291	25.5	18,268
Operating Expenses	4,346	3,028	43.5	3,378	28.7	13,877
% of sales	80.7	70.3		78.7		76.0
EBITDA	1,038	1,277	(18.8)	913	13.6	4,391
EBITDA Margins (%)	19.3	29.7		21.3		24.0
Other Income	40	49	(16.9)	41	(1.2)	193
Interest	201	118	69.4	211	(4.8)	616
Depreciation	314	141	122.3	249	26.2	855
PBT	564	1,067	(47.2)	495	14.0	3,113
Tax	125	469	(73.4)	30	319.3	853
Effective Tax Rate(%)	22	44		6.0		27.4
Adjusted PAT	439	598	(26.6)	465	(5.6)	2,260
Reported PAT	439	598	(26.6)	465	(5.6)	2,260
NPM (%)	8.2	13.9		10.8		12.4

Source: Company, Elara Securities Estimate

Key Financials											
Y/E Mar (INR mn)	Rev	YoY (%)	EBITDA	EBITDA (%)	Adj PAT	YoY (%)	Fully DEPS	RoE (%)	P/E (x)	EV /tonne^ (USD)	EV/EBITDA (x)
FY08	14,583	18.2	4,157	28.5	2,652	48.5	37.9	41.5	4.8	87	4.1
FY09	14,968	2.6	3,240	21.6	1,423	(46.3)	20.4	17.0	9.0	101	6.8
FY10E	18,268	22.0	4,391	24.0	2,260	58.8	32.3	22.4	5.6	67	4.7
FY11E	23,492	28.6	3,987	17.0	1,743	(22.9)	24.9	14.7	7.3	51	5.3
FY12E	25,529	8.7	3,871	15.2	1,554	(10.8)	22.2	11.7	8.2	77*	7.8

Source: Company, Elara Securities Estimate ^ EV/T for grey cement business; * without adjusting for Capital WIP for brownfield project

Ravindra Deshpande • ravindra.deshpande@elaracapital.com • +91 22 4062 6805

Ravi Sodah • ravi.sodah@elaracapital.com • +91 22 4062 6817

Elara Securities (India) Private Limited

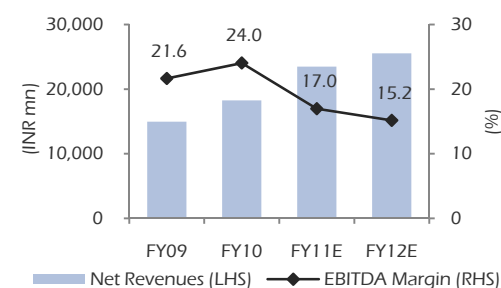
Financials

Income Statement (INR mn)	FY09	FY10	FY11E	FY12E
Net Revenues	14,968	18,268	23,492	25,529
EBITDA	3,240	4,391	3,987	3,871
Add:- Non operating Income	79	193	186	196
OPBITDA	3,319	4,584	4,173	4,067
Less :- Depreciation & Amortization	524	855	1,103	1,206
EBIT	2,795	3,729	3,070	2,861
Less:- Interest Expenses	455	616	650	789
PBT	2,340	3,113	2,421	2,072
Less :- Taxes	916	853	678	518
Adjusted PAT	1,423	2,260	1,743	1,554
Add/Less: - Extra-ordinaries	-	-	-	-
Reported PAT	1,423	2,260	1,743	1,554
Balance Sheet (INR mn)	FY09	FY10	FY11E	FY12E
Share Capital	699	699	699	699
Reserves	11,161	13,211	14,710	16,019
Borrowings	5,644	10,194	9,344	17,994
Total Liabilities	17,505	24,105	24,753	34,712
Gross Block	14,411	25,411	27,911	34,911
Less:- Accumulated Depreciation	2,254	3,109	4,212	5,418
Net Block	12,158	22,302	23,699	29,493
Add:- Capital work in progress	351	-	1,000	5,500
Investments	107	107	107	107
Net Working Capital	5,871	2,677	928	593
Miscellaneous Expenses not written off	24	24	24	24
Net Deferred Tax	(1,006)	(1,006)	(1,006)	(1,006)
Total Assets	17,505	24,105	24,753	34,712
Cash Flow Statement (INR mn)	FY09	FY10	FY11E	FY12E
Cash profit adjusted for non cash items	2,506	3,522	3,251	3,304
Add/Less : Working Capital Changes	(93)	4,349	91	31
Operating Cash Flow	2,412	7,870	3,342	3,336
Less:- Capex	(916)	(10,649)	(3,500)	(11,500)
Free Cash Flow	1,496	(2,779)	(158)	(8,164)
Financing Cash Flow	(1,793)	3,934	(1,500)	7,861
Investing Cash Flow	92	-	-	-
Net change in Cash	(204)	1,155	(1,658)	(304)
Ratio Analysis	FY09	FY10E	FY11E	FY12E
Income Statement Ratios(%)				
Revenue Growth	2.6	22.0	28.6	8.7
EBITDA Growth	(22.1)	35.5	(9.2)	(2.9)
PAT Growth	(46.3)	58.8	(22.9)	(10.8)
EBITDA Margin	21.6	24.0	17.0	15.2
Net Margin	9.5	12.4	7.4	6.1
Return & Liquidity Ratios (%)				
Net Debt/Equity (x)	0.5	0.7	0.7	1.3
ROE	17.0	22.4	14.7	11.7
ROCE	16.9	17.9	12.6	9.6
Per Share data & Valuation Ratios				
Diluted EPS (INR/Share)	20.4	32.3	24.9	22.2
EPS Growth (%)	(46.3)	58.8	(22.9)	(10.8)
DPS (INR/Share)	3.5	3.5	3.5	3.5
P/E Ratio (x)	9.0	5.6	7.3	8.2
EV/EBITDA (x)*	6.8	4.7	5.3	7.8
EV/Sales (x)*	1.5	1.1	0.9	1.2
EV/Tonne (USD)*	101.2	66.7	51.2	76.7
Dividend Yield (%)	1.9	1.6	1.9	1.9

Source: Company, Elara Securities Estimate

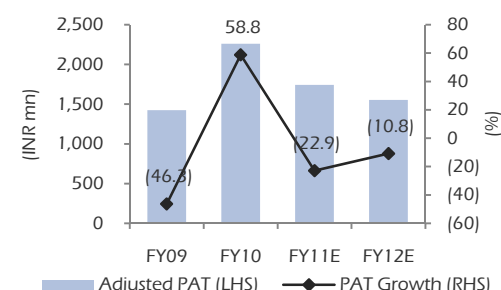
* without adjusting for Capital WIP for brownfield project

Revenue & margins growth trend



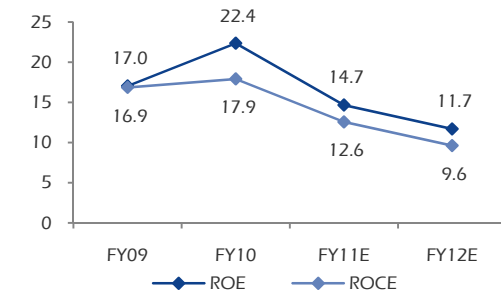
Source: Company, Elara Securities Estimate

Adjusted profits growth trend



Source: Company, Elara Securities Estimate

Return ratios (%)



Source: Company, Elara Securities Estimate

While cement enhances realizations

Grey cement volumes increased 23.8% YoY and 28.6% QoQ on the back of capacity additions. The realizations for the grey cement business, however, declined 2.2% YoY and 6% QoQ.

White cement volumes stood at 80,112 tonnes representing an increase of 17.8% YoY and 8.3% QoQ. The white cement realizations improved 25.3% YoY and 32.0% QoQ to INR15,853/tonne due to higher proportion of wall putty in the white cement volume sales.

The EBITDA per tonne for grey cement stood at INR533 as compared to INR750 in Q3FY10. The white cement EBITDA stood at INR4,369/tonne as compared to INR 3,500/tonne in Q3FY10 as a result of better realizations.

The blended EBITDA for Q4FY10 stood at INR757/tonne as compared to INR848/tonne in Q3FY10 and INR1,151/tonne in Q4FY09. The decline in realizations coupled with higher cost pressures have weighed down EBITDA margins of the company which seem all set to sustain for a while.

New capacity additions

JK Cement has recently commissioned its 3mn tonnes greenfield capacity addition in the Southern region at Muddapur, Karnataka. With the commissioning of this plant, the total installed grey cement capacity of the company has increased to 7.5mn tonnes. Post the completion of its brownfield expansion, the cement capacity of the company would go up to 10mn tonnes.

Exhibit 1: Operational performance

Volume Sales	Q4FY10	Q4FY09	YoY(%)	Q3FY10	QoQ(%)
Grey Cement (Mn tonnes)	1.29	1.04	23.8	1.00	28.6
White Cement (Tonnes)	80,112	68,000	17.8	74,000	8.3
Realization (INR/tonne)					
Grey Cement	3,189	3,260	(2.2)	3,393	(6.0)
White Cement	15,853	12,650	25.3	12,008	32.0
Blended	3,929	3,879	1.3	3,985	(1.4)
EBITDA - Blended (INR/tonne)	757	1,151	(34.2)	848	(10.7)

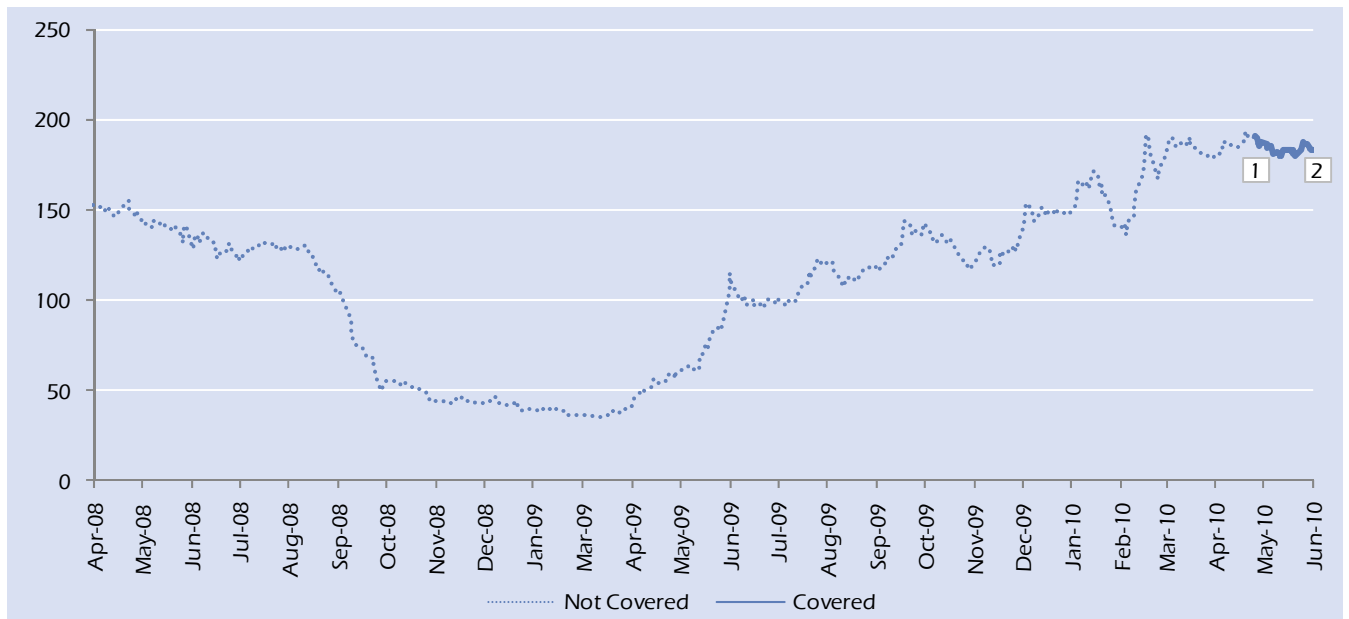
Source: Company, Elara Securities Research

Exhibit 2: Per Tonne analysis (blended)

(INR/tonne)	Q4FY10	Q4FY09	YoY(%)	Q3FY10	QoQ(%)
Realisation	3,929	3,879	1.3	3,985	(1.4)
Raw Material Consumed	426	423	0.8	486	(12.2)
Stock Adjustment	(112)	83	(234.5)	(113)	(0.6)
Stores	219	182	20.3	292	(24.9)
Employee Expenses	194	179	8.6	210	(7.4)
Power, Oil & Fuel	1,113	718	55.1	865	28.7
Freight	873	777	12.3	880	(0.8)
Other Expenses	458	365	25.3	516	(11.4)
Total cost	3,172	2,728	16.3	3,137	1.1
EBITDA	757	1,151	(34.2)	848	(10.7)

Source: Company, Elara Securities Research

Coverage History



	Date	Rating	Target Price	Closing Price
1	29-Apr-2010	Buy	INR245	INR185
2	1-Jun-2010	Buy	INR220	INR182

Guide to Research Rating

BUY	Absolute Return >+20%
ACCUMULATE	Absolute Return +5% to +20%
REDUCE	Absolute Return -5% to +5%
SELL	Absolute Return < -5%

Disclosures & Confidentiality

The Note is based on our estimates and is being provided to you (herein referred to as the "Recipient") only for information purposes. The sole purpose of this Note is to provide preliminary information on the business activities of the company and the projected financial statements in order to assist the recipient in understanding / evaluating the Proposal. Nothing in this document should be construed as an advice to buy or sell or solicitation to buy or sell the securities of companies referred to in this document. Each recipient of this document should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved) and should consult its own advisors to determine the merits and risks of such an investment. Nevertheless, Elara or any of its affiliates is committed to provide independent and transparent recommendation to its client and would be happy to provide any information in response to specific client queries. Elara or any of its affiliates have not independently verified all the information given in this Note and expressly disclaim all liability for any errors and/or omissions, representations or warranties, expressed or implied as contained in this Note. The user assumes the entire risk of any use made of this information. Elara or any of its affiliates, their directors and the employees may from time to time, effect or have effected an own account transaction in or deal as principal or agent in or for the securities mentioned in this document. They may perform or seek to perform investment banking or other services for or solicit investment banking or other business from any company referred to in this Note. Each of these entities functions as a separate, distinct and independent of each other. This Note is strictly confidential and is being furnished to you solely for your information. This Note should not be reproduced or redistributed or passed on directly or indirectly in any form to any other person or published, copied, in whole or in part, for any purpose. This Note is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject Elara or any of its affiliates to any registration or licensing requirements within such jurisdiction. The distribution of this document in certain jurisdictions may be restricted by law, and persons in whose possession this document comes, should inform themselves about and observe, any such restrictions. Upon request, the Recipient will promptly return all material received from the company and/or the Advisors without retaining any copies thereof. The Information given in this document is as of the date of this report and there can be no assurance that future results or events will be consistent with this information. This Information is subject to change without any prior notice. Elara or any of its affiliates reserves the right to make modifications and alterations to this statement as may be required from time to time. However, Elara is under no obligation to update or keep the information current. Neither Elara nor any of its affiliates, group companies, directors, employees, agents or representatives shall be liable for any damages whether direct, indirect, special or consequential including lost revenue or lost profits that may arise from or in connection with the use of the information. This Note should not be deemed an indication of the state of affairs of the company nor shall it constitute an indication that there has been no change in the business or state of affairs of the company since the date of publication of this Note. The disclosures of interest statements incorporated in this document are provided solely to enhance the transparency and should not be treated as endorsement of the views expressed in the report. Elara Securities (India) Private Limited generally prohibits its analysts, persons reporting to analysts and their family members from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover. The analyst for this report certifies that all of the views expressed in this report accurately reflect his or her personal views about the subject company or companies and its or their securities, and no part of his or her compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this report.

Any clarifications / queries on the proposal as well as any future communication regarding the proposal should be addressed to Elara Securities (India) Private Limited / the company.

Disclaimer

The information contained in this note is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavor to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

India

Kalpataru Synergy, 6th Level, East Wing,
Opp Grand Hyatt, Santacruz East,
Mumbai – 400 055, India
Tel : +91 22 4062 6868

Europe

29 Marylebone Road,
London NW1 5JX,
United Kingdom
Tel : +44 20 7486 9733

USA

535 Fifth Avenue
29th Floor
New York, NY 10017
Tel : 646-884-7130

Asia / Pacific

20, RAFFLES PLACE,
14-02 OCEAN TOWERS,
Singapore 048620
Tel : +65 6536 6267

Harendra Kumar **Head - Institutional Equities & Global Research** harendra.kumar@elaracapital.com +91 22 4062 6871

Sales

Joseph K. Mammen **Global Head Sales & Trading**

London +44 78 5057 7329 joseph.mammen@elaracapital.com +44 20 7467 5578

David Somekh London +44 75 9527 9712 david.somekh@elaracapital.com +44 20 7299 2577

Jonathan Camissar London +44 79 1208 7272 jonathan.camissar@elaracapital.com +44 20 7299 2575

Prashin Lalvani India +91 98334 77685 prashin.lalvani@elaracapital.com +91 22 4062 6844

Koushik Vasudevan India +91 98676 96668 koushik.vasudevan@elaracapital.com +91 22 4062 6841

Amit Mamgain India +91 98676 96661 amit.mamgain@elaracapital.com +91 22 4062 6843

Sales Trading & Dealing

Ananthanarayan Iyer India +91 98334 99217 ananthanarayan.iyer@elaracapital.com +91 22 4062 6856

Vishal Thakkar India +91 98694 07973 vishal.thakkar@elaracapital.com +91 22 4062 6857

Research

Abhinav Bhandari Analyst Construction, Infrastructure abhinav.bhandari@elaracapital.com +91 22 4062 6807

Aliasgar Shakir Analyst Mid caps aliasgar.shakir@elaracapital.com +91 22 4062 6816

Alok Deshpande Analyst Oil & Gas alok.deshpande@elaracapital.com +91 22 4062 6804

Amol Bhutada Analyst Auto & Auto Ancillaries amol.bhutada@elaracapital.com +91 22 4062 6806

Himani Singh Analyst FMCG, Hotels, Hospitals himani.singh@elaracapital.com +91 22 4062 6801

Mohan Lal Analyst Media & Retail mohan.lal@elaracapital.com +91 22 4062 6802

Pralay Das Analyst Information Technology pralay.das@elaracapital.com +91 22 4062 6808

Ravindra Deshpande Analyst Metals & Cement ravindra.deshpande@elaracapital.com +91 22 4062 6805

Ravi Sodah Analyst Cement ravi.sodah@elaracapital.com +91 22 4062 6817

Satyender Khatter Analyst Banking & Telecom satyender.khatter@elaracapital.com +91 22 4062 6809

Sumant Kumar Analyst FMCG sumant.kumar@elaracapital.com +91 22 4062 6803

Surajit Pal Analyst Pharmaceuticals surajit.pal@elaracapital.com +91 22 4062 6810

Kavitha Rajan Associate Telecom kavitha.rajan@elaracapital.com +91 22 4062 6814

Pooja Sharma Associate pooja.sharma@elaracapital.com +91 22 4062 6819

Saira Ansari Associate saira.ansari@elaracapital.com +91 22 4062 6812

Tarun Kapila Associate tarun.kapila@elaracapital.com +91 22 4062 6811

Sreevalsan Menon Editor sreevalsan.menon@elaracapital.com +91 22 4062 6813

Gurunath Parab Production gurunath.parab@elaracapital.com +91 22 4062 6815

Access our reports on Bloomberg: Type **ESEC <GO>**

Also available on **Thomson & Reuters**

Member (NSE, BSE)

Regn Nos: CAPITAL MARKET SEBI REGN. NO.: BSE: INB 01 1289833, NSE: INB 23 1289837 DERIVATIVES SEBI REGN. NO.: NSE: INF 231289837
CLEARING CODE: M51449.

Website: www.elaracapital.com Investor Grievance Email ID: investor.grievances@elaracapital.com