

# JK Cement

**Shobhit Khare** ([shobhit.khare@manfinancial.in](mailto:shobhit.khare@manfinancial.in)) +91 22 6667 9974  
**Vaibhav Agarwal** (Research Associate)

## Stable growth despite monsoons...

- Operating performance slightly better than expected
- Net profit at Rs 340mn, up 594% yoy and 3% qoq
- EBITDA margin at 23.7%, up 1,000 bps yoy and 20 bps qoq
- Consolidated EBITDA/tonne at Rs 721, up Rs 52/tonne vs. Q1FY07
- Strong qoq realisations growth (+Rs 201/tonne)
- Other income at Rs 51mn (+ Rs 44mn qoq); higher than expected due to power charges rebate of Rs40mn

### Net realisations up ~6% qoq

Net realisations were up by ~6% qoq for both grey and white cement. Improvement in realisations were slightly higher than those reported by other players in the industry. The company was able to mitigate the impact of lower volumes by directing despatches to higher retention zones.

### Ebitda/tonne improved despite cost-push

EBITDA/tonne improved to Rs 721 (+Rs 52 qoq) lead by higher realisations. JK reported an increase in raw material and power & fuel costs (+11-12% qoq on a per tonne basis). Grey cement capacity utilization declined from 92% to 82% in Q2FY07. Operating cost per tonne increased Rs 148/tonne to Rs 2,325.

### Capex plans on schedule

**Power projects:** The company expects its three captive power projects to come on-stream in December 2006 – June 2007.

**Karnataka greenfield expansion:** 80% of factory land has been acquired; JK expects the land acquisition to be complete by March 2007. Down payment against the orders for plant & machinery and other long delivery items has also been made. Work on site expected to begin by December 2006. JK has advanced Rs 150mn to Jaykaycem (100% subsidiary) for this.

### Revise price target to Rs 240 (+4% vs. earlier); upgrading earnings by ~5%

We are upgrading our estimates for FY07E and FY08E by 5% on higher realisations (+ 4-6%). We revise our grey cement volume forecast to 3.8mn tonnes (-5.5% vs. earlier) on lower Q2 volumes.

Maintain BUY / Rs 193  
Target Rs 240 (+25%)

#### Sector (Relative to market)

OW	N	UW

#### Stock (Relative to market)

B	OP	N	UP	S
> 10%	5% to 10%	5% to -5%	-5% to -10%	< -10%

Bloomberg code : JKCE IN  
Reuters code : JKCE.BO  
www.jkcement.com

BSE Sensex : 12907  
NSE Nifty : 3739

#### Company data

O/S shares :	70mn
Market cap (Rs) :	13bn
Market cap (USD) :	298mn
52 - wk Hi/Lo (Rs) :	211 / 109
Avg. daily vol. (3mth) :	169,547
Face Value (Rs) :	10

#### Share holding pattern, %

Promoters :	61.6
FII / NRI :	13.2
FI / MF :	6.5
Non Promoter Corp. Holdings :	5.5
Public & Others :	13.3

#### Price performance, %

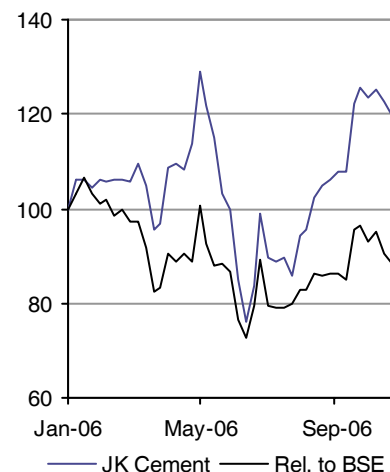
	1mth	3mth	1yr
Abs	-3.0	29.4	39.3
Rel to BSE	-7.4	9.3	-26.2

## Valuation summary

Y/E Mar, Rs mn	FY2006	FY2007E	FY2008E
Net Sales	8,737	12,076	12,348
Core EBIDTA	1,320	3,079	3,540
EBIDTA margin, %	15.1	25.5	28.7
Net profit	326	1540	1897
PAT margins, %	3.7	12.8	15.4
EPS, Rs	4.7	22.0	27.1
EPS Growth, %		372.9	23.2
PER, x	41.4	8.7	7.1
EV/EBIDTA, x	12.5	5.4	4.9
EV/Net Sales, x	1.9	1.4	1.4
Price/Book Value, x	2.0	1.7	1.4
ROIC, %	6.5	16.7	17.1
ROE, %	6.1	20.8	21.4
Dividend Yield, %	0.8	0.8	0.8

Source: Company, Man Financial Research Estimates

## JK vs. Sensex



Source: Bloomberg, Man Financial Research

### Improved realisations, higher other income boost profits

(Rs mn)	Q2FY07	Q2FY06	Q1FY07	FY07E	FY06
Net sales	2,682	2,058	2,795	12,076	8,737
<i>Growth Yoy, %</i>	30.3		39.5	38.2	12.8
Operating expenses	2,047	1,776	2,138	8,997	7,417
<b>EBITDA</b>	<b>635</b>	<b>282</b>	<b>657</b>	<b>3,079</b>	<b>1,320</b>
<i>Growth Yoy, %</i>	125.2		162.8	133.2	49.3
<i>Margin, %</i>	23.7	13.7	23.5	25.5	15.1
Depreciation	81	78	82	431	310
<b>EBIT</b>	<b>554</b>	<b>204</b>	<b>575</b>	<b>2,648</b>	<b>1,010</b>
<i>Growth Yoy, %</i>	171.6		230.5	162.2	
<i>Margin, %</i>	20.7	9.9	20.6	21.9	11.6
Interest paid	92	154	82	467	582
Other Income	51	27	7	153	94
<b>Pre-tax profit</b>	<b>513</b>	<b>77</b>	<b>500</b>	<b>2,334</b>	<b>522</b>
Tax provided	173	28	170	794	196
<b>Profit after tax</b>	<b>340</b>	<b>49</b>	<b>330</b>	<b>1,540</b>	<b>326</b>
Extraordinary items: Gains/(Losses)					
<b>MAN Net profit</b>	<b>340</b>	<b>49</b>	<b>330</b>	<b>1,540</b>	<b>326</b>
<i>Growth Yoy, %</i>	593.9		842.9	373.1	
Q2 EPS, Rs	4.9	1.0	4.7	22.0	4.7
<b>Annualised EPS, Rs</b>	<b>19.4</b>	<b>3.9</b>	<b>18.9</b>		
Unadj. shares (m)	69.9	49.9	69.9	69.9	69.9
Wtd avg shares (m)	69.9	49.9	69.9	69.9	69.9

Source: Company, Man Financial Research

### Operating Revenue & Cost Analysis\*

Per Tonne Analysis	Q2FY07	Q2FY06	Q1FY07
<b>Net Realization</b>	<b>3,046</b>	<b>2,198</b>	<b>2,845</b>
Raw Material	335	210	298
Stock Adj.	-27	28	-34
Employee Expenses	134	110	124
Power & Fuel	834	702	749
Selling & Administrative Expenses	599	448	602
Other Expenses	451	399	437
<b>EBITDA</b>	<b>721</b>	<b>301</b>	<b>669</b>

Per Bag Analysis	Q2FY07	Q2FY06	Q1FY07
<b>Net Realization</b>	<b>152</b>	<b>110</b>	<b>142</b>
Raw Material	17	11	15
Stock Adj.	-1	1	-2
Employee Expenses	7	6	6
Power & Fuel	42	35	37
Selling & Administrative Expenses	30	22	30
Other Expenses	23	20	22
<b>EBITDA</b>	<b>36</b>	<b>15</b>	<b>33</b>

\*Per tonne analysis has been made considering the total volumes (Grey Cement + White Cement). Per bag analysis assumes per bag to be of 50 kgs

Source: Company, Man Financial Research

---

## Valuation Summary

---

### Current Capacity - Grey Cement

FY08E Grey Cement EBITDA (Rsmn)	3,209
FY08E Grey Cement EBITDA margin, %	29
FY08E Grey Cement EBITDA/Share (Rs)	46
Target EV/EBITDA (x)	4.8
EV/Share - Grey Cement (Rs)	220
FY08E Implied Target EV/tonne (US\$)	83

---

### Current Capacity - White Cement

FY08E White Cement EBITDA (Rsmn)	331
FY08E White Cement EBITDA margin, %	19
FY08E White Cement EBITDA/Share (Rs)	5
Target EV/EBITDA (x)	6.0
EV/Share - White Cement (Rs)	28
Implied Target EV/tonne (US\$)	108

---

### New Capacity - Grey Cement (to be commissioned by Sep'08)

FY08E Investment in Karnataka Grey Cement Project (Rsmn)	3,500
FY08E Investment/Share	50
Target Price / Book (x)	1
EV/Share - Karnataka Grey Cement Project	50

---

Total EV/Share	299
Net Debt/Share	55
<b>Equity Fair Value/Share (Rs)</b>	<b>244</b>
<i>% upside</i>	<i>27%</i>
FY08E Implied Target P/E (x)	9.0

---

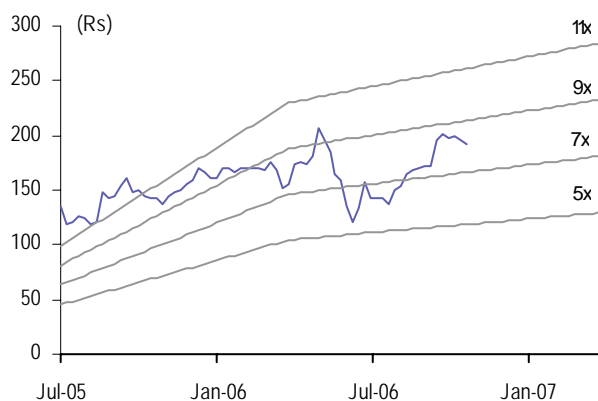
FY08E EV based on CMP (Rsmn)	17,313
FY08E Grey Cement Capacity (EOP, mtpa)	4.1
EV of White Cement and Karnataka Project	5,487
EV-Grey Cement Capacity at CMP	11,827
FY08E EV/tonne at CMP (US\$)	63
FY08E EV/EBITDA- Grey Cement (x)	3.7

---

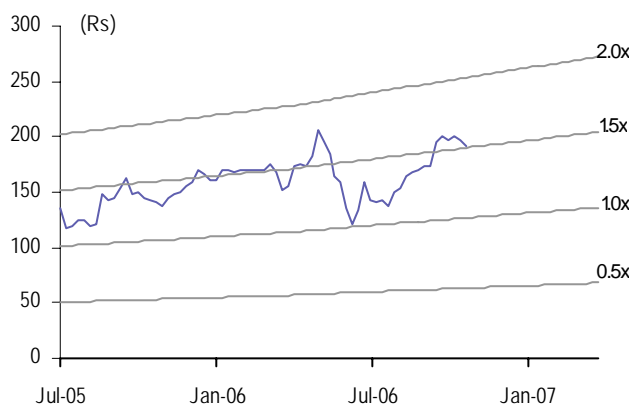
Source: Company, Man Financial Research

# ABSOLUTE ROLLING VALUATION BAND CHARTS

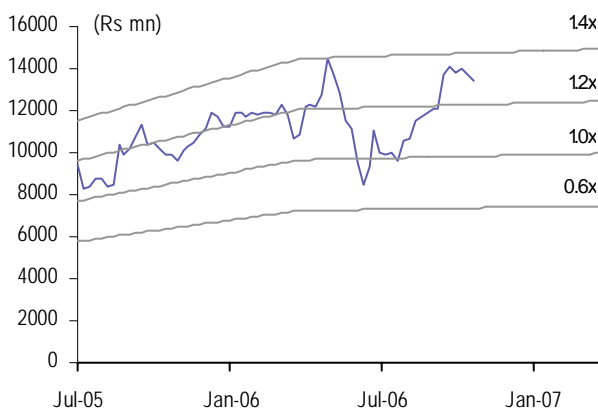
**PE band**



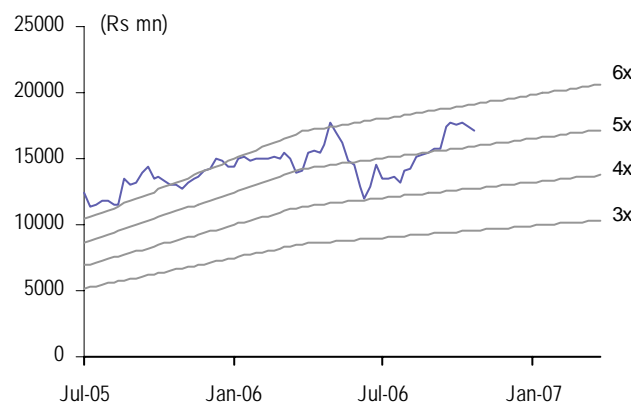
**PBV band**



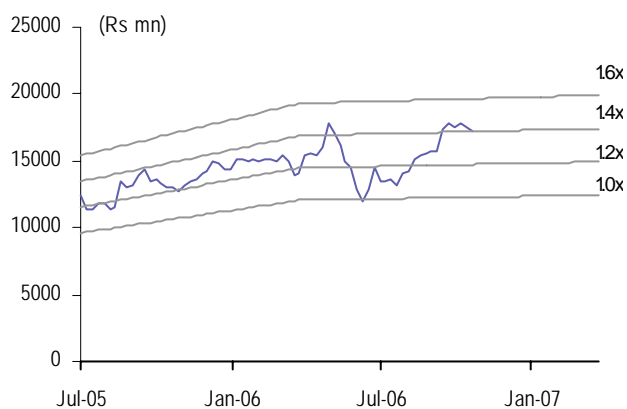
**MCap/Sales band**



**EV/EBIDTA band**



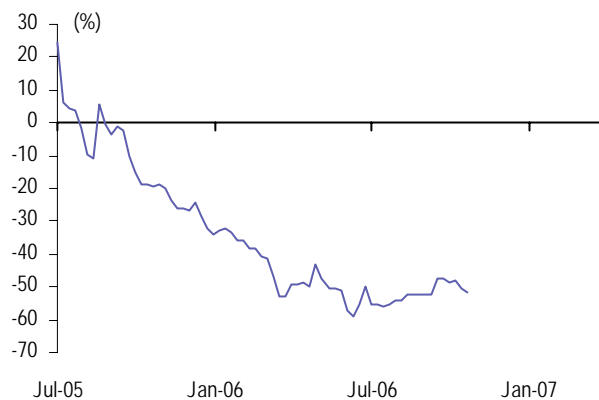
**EV/Sales band**



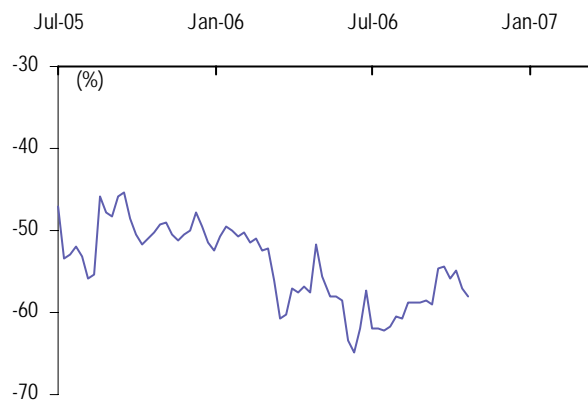
Source: Man Financial Research

## PREMIUM / DISCOUNT TO SENSEX

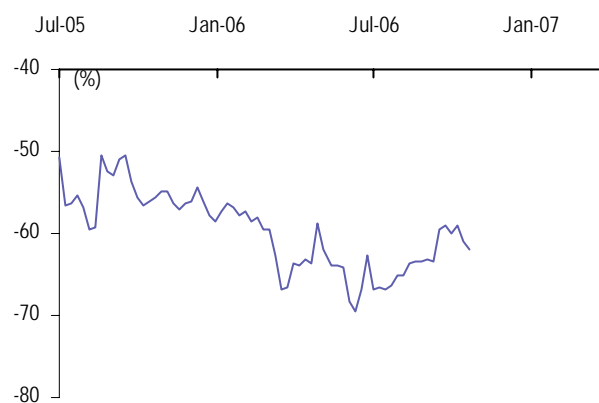
### PE



### PBV



### MCap/Sales



Source: Man Financial Research

## FINANCIALS

### Income Statement

Y/E Mar, Rs mn	FY2006	FY2007E	FY2008E
<b>Net sales</b>	<b>8,737</b>	<b>12,076</b>	<b>12,348</b>
<i>Growth, %</i>		38	2
Operating expenses	-7,417	-8,997	-8,808
<b>EBITDA</b>	<b>1,320</b>	<b>3,079</b>	<b>3,540</b>
<i>Growth, %</i>		133	15
<i>Margin, %</i>	15	25	29
Depreciation	-310	-431	-508
<b>EBIT</b>	<b>1,010</b>	<b>2,648</b>	<b>3,032</b>
<i>Growth, %</i>		162	15
<i>Margin, %</i>	12	22	25
Net Interest and others	-488	-314	-322
<b>Pre-tax profit</b>	<b>522</b>	<b>2,334</b>	<b>2,710</b>
Tax provided	-196	-794	-813
<b>Profit after tax</b>	<b>326</b>	<b>1,540</b>	<b>1,897</b>
<b>MAN Net profit</b>	<b>326</b>	<b>1,540</b>	<b>1,897</b>
<i>Growth, %</i>		373	23
Extraordinary items: Gains/(Losses)	0	0	0
Unadj. shares (m)	70	70	70
Wtd avg shares (m)	70	70	70

### Cash Flow

Y/E Mar, Rs mn	FY2006	FY2007E	FY2008E
Pre-tax profit	522	2,334	2,710
Depreciation	310	431	508
Chg in working capital	173	677	545
Total tax paid	-196	-794	-813
Cash flow from operating activities	808	2,649	2,950
Capital expenditure	-835	-2,563	-3,667
Cash flow from investing activities	-835	-2,563	-3,667
Free cash flow	-27	85	-717
Equity raised/(repaid)	2,790	0	0
Debt raised/(repaid)	-591	-1,820	337
Dividend (incl. tax)	0	-120	-120
Cash flow from financing activities	2,199	-1,940	217
Net chg in cash	2,172	-1,854	-500

## Balance Sheet

As at 31st Mar, Rs mn	FY2006	FY2007E	FY2008E
Cash & bank	2,854	1,000	500
Debtors	461	638	652
Inventory	840	1,122	1,138
Loans & advances	927	1,059	1,070
Other current assets	12	17	17
<b>Total current assets</b>	<b>5,094</b>	<b>3,836</b>	<b>3,377</b>
Gross fixed assets	9,592	11,274	11,759
Less: Depreciation	-612	-1,167	-1,799
Add: Capital WIP	569	1,451	4,633
Net fixed assets	9,549	11,557	14,593
Other non-current assets	19	26	27
<b>Total assets</b>	<b>14,662</b>	<b>15,419</b>	<b>17,996</b>
Current liabilities	1,923	2,659	2,718
Non-current liabilities	5,996	4,721	5,585
<b>Total liabilities</b>	<b>7,919</b>	<b>7,379</b>	<b>8,303</b>
Paid-up capital	699	699	699
Reserves & surplus	6,043	7,340	8,994
Shareholders' equity	6,743	8,040	9,693
<b>Total equity &amp; liabilities</b>	<b>14,662</b>	<b>15,419</b>	<b>17,996</b>

## Per-share data

	FY2006	FY2007E	FY2008E
MAN EPS (INR)	4.7	22.0	27.1
<i>Growth</i>		372.9	23.2
Book NAV/share (INR)	96.4	115.0	138.6
FDEPS (INR)	4.7	22.0	27.1
CEPS (INR)	9.1	28.2	34.4
CFPS (INR)	10.9	37.5	41.8
DPS (INR)	1.5	1.5	1.5

## Financial structure

	FY2006	FY2007E	FY2008E
Total debt/Equity (%)	86.3	49.8	44.8
Net debt/Equity (%)	44.0	37.3	39.6

## Profitability, Productivity, Liquidity and Valuation Ratios

	FY2006	FY2007E	FY2008E
Return on assets (%)	5.3	12.2	12.9
Return on equity (%)	6.1	20.8	21.4
Return on Invested capital (%)	6.5	16.7	17.1
RoIC/Cost of capital (x)	0.5	1.3	1.3
RoIC - Cost of capital (%)	-6.2	3.4	3.8
Return on capital employed (%)	6.0	14.4	15.3
Cost of capital (%)	12.7	13.2	13.3
RoCE - Cost of capital (%)	-6.7	1.2	2.0
Asset turnover (x)	0.9	1.2	1.0
Sales/Total assets (x)	0.7	0.8	0.7
Sales/Net FA (x)	0.9	1.1	0.9
Working capital/Sales (x)	0.0	0.0	0.0
Fixed capital/Sales (x)	0.0	0.0	0.0
Receivable days	19.3	19.3	19.3
Inventory days	35.1	33.9	33.6
Payable days	0.0	0.0	0.0
Current ratio (x)	2.6	1.4	1.2
Quick ratio (x)	2.2	1.0	0.8
Interest cover (x)	1.9	7.8	8.8
Dividend cover (x)	3.1	14.7	18.1
PER (x)	41.4	8.7	7.1
PEG (x) - y-o-y growth	n/a	0.0	0.3
Price/Book (x)	2.0	1.7	1.4
Yield (%)	0.8	0.8	0.8
EV/Net sales (x)	1.9	1.4	1.4
EV/EBITDA (x)	12.5	5.4	4.9
EV/EBIT (x)	16.3	6.2	5.7
EV/NOPLAT (x)	26.1	9.4	8.2
EV/CE	1.3	1.3	1.1
EV/IC (x)	1.7	1.6	1.4

Source: Company, Man Financial Research Estimates

<b>Gangadhara Kini</b>	<b>Head – Institutional Equities</b>	<b>91-22-6667 9752</b>	<b>gangadhara.kini@manfinancial.in</b>
<b>Vasudeo Joshi</b>	<b>Head – Institutional Equity Research</b>	<b>91-22-6667 9754</b>	<b>vasudeo.joshi@manfinancial.in</b>
<b>Jignesh Shah</b>	<b>Head – Equity Derivatives</b>	<b>91-22-6667 9735</b>	<b>jignesh.shah@manfinancial.in</b>

### Equity Research

Abhijeet Dakshikar	Engineering, Construction & Power	91-22-6667 9963	abhijeet.dakshikar@manfinancial.in
Anjali Verma	Economist	91-22-6667 9969	anjali.verma@manfinancial.in
Mandar Pawar	Oil & Gas	91-22-6667 9987	mandar.pawar@manfinancial.in
Nimesh Mistry	IT Services	91-22-6667 9768	nimesh.mistry@manfinancial.in
Parthapratim Gupta	Financial Services	91-22-6667 9962	parthapratim.gupta@manfinancial.in
Rahul Jain	Metals	91-22-6667 9758	rahul.jain@manfinancial.in
Shishir Manuj	FMCG & Retail	91-22-6667 9759	shishir.manuj@manfinancial.in
Shobhit Khare	Telecom & Cement	91-22-6667 9974	shobhit.khare@manfinancial.in
Vivek Pandey	Auto, Auto Ancillaries & Logistics	91-22-6667 9766	vivek.pandey@manfinancial.in
Aravind Manickam	Research Associate	91-22-6667 9992	aravind.manickam@manfinancial.in
Chaturya Tipnis	Research Associate	91-22-6667 9764	chaturya.tipnis@manfinancial.in
Prachi Kulkarni	Research Associate	91-22-6667 9966	prachi.kulkarni@manfinancial.in
Rupesh Sonawale	Research Associate	91-22-6667 9769	rupesh.sonawale@manfinancial.in
Shridatta Bhandwadar	Research Associate	91-22-6667 9965	shridatta.bhandwadar@manfinancial.in
Vaibhav Agarwal	Research Associate	91-22-6667 9967	vaibhav.agarwal@manfinancial.in
Pankaj Kadu	Database Analyst	91-22-6667 9972	pankaj.kadu@manfinancial.in
Roshan Sony	Editor	91-22-6667 9964	roshan.sony@manfinancial.in
Ganesh Deorukhkar	Production	91-22-6667 9756	ganesh.deorukhkar@manfinancial.in

### Institutional Cash Equity Sales

Vijay Baoney	Senior Vice President	91-22-6667 9753	vijay.baoney@manfinancial.in
Sweta Ganguly	Asst. Vice President	91-22-6667 9973	sweta.ganguly@manfinancial.in
Smitesh Sheth	Asst. Vice President	91-22-6667 9991	smitesh.sheth@manfinancial.in

### Institutional Cash Equity Sales Trading

Suketu Parekh	Sales Trader	91-22-6667 9746	suketu.parekh@manfinancial.in
Sajid Khalid	Sales Trader	91-22-6667 9745	sajid.khalid@manfinancial.in
Chetan Savla	Sales Trader	91-22-6667 9749	chetan.savla@manfinancial.in

### Institutional Cash Equity Dealing

Chetan Babaria	Dealer	91-22-6667 9749	chetan.babaria@manfinancial.in
Rajesh Ashar	Dealer	91-22-6667 9748	rajesh.ashar@manfinancial.in

#### Man Financial Sify Securities India Pvt Ltd

This report is issued by Man Financial Sify Securities India Pvt Limited, is authorised and regulated by SEBI. Man Financial Sify Securities India Pvt Ltd is a member of the Man Group. References to "MFSSSIPL" in this report shall mean Man Financial Sify Securities India Pvt Limited unless otherwise stated. The report was prepared and distributed by MFSSSIPL for information purposes only. The report should not be construed as solicitation nor as offering advice for the purposes of the purchase or sale of any security, investment or derivative. The information and opinions contained in the Report were considered by MFSSSIPL to be valid when published. The report also contains information provided to MFSSSIPL by third parties. The source of such information will usually be disclosed in the report. Whilst MFSSSIPL has taken all reasonable steps to ensure this information is correct, MFSSSIPL does not offer any warranty as to the accuracy or completeness of such information. Any person placing reliance on the report to undertake trading does so entirely at his or her own risk and MFSSSIPL does not accept any liability as a result. Securities and Derivatives markets may be subject to rapid and unexpected price movements and past performance is not necessarily a guide to future performance. Man Financial Sify Securities India Pvt Limited, 2<sup>nd</sup> Floor, C-Block, Modern Centre, Mahalaxmi, Mumbai-400 011. To be removed from future MFSSI e-mail updates, including rate offers, simply reply to this e-mail and enter, "REMOVE FROM E-MAIL LIST" on the subject line. CUSTOMERS PLEASE NOTE: When unsubscribing, unless you specifically request not to, you will CONTINUE to receive your statements electronically if you already do so.

#### MFSSSIPL Disclaimer

This Document is for private circulation and for information purposes only. It does not have regard to the specific investment objectives, financial situation and the particular needs of any specific person who may receive this report. Investors should seek financial advice regarding the appropriateness of investing in any securities or investment strategies discussed or recommended in this report and should understand that statements regarding future prospects may not be realized. In no circumstances it be used or considered as an offer to sell or a solicitation of any offer to buy or sell the Securities mentioned in it. 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 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. The information contained in the research reports may have been taken from trade and statistical services and other sources, which we believe are reliable. Man Financial -Sify or any of its group companies do not guarantee that such information is accurate or complete and it should not be relied upon as such. Any opinions expressed reflect judgments at this date and are subject to change without notice.

Caution: Risk of loss in trading in can be substantial. You should carefully consider whether trading is appropriate for you in light of your experience, objectives, financial resources and other relevant circumstances.

Man Financial-Sify Securities India Pvt. Ltd.,  
2<sup>nd</sup> floor, 'C' Block, Modern Centre, Mahalaxmi, Mumbai-400 011, India. Tel: 91 22 2300 2999