

J K CEMENT LTD.

Improving efficiencies...

Q1 FY 2007 update

SUMMARY

COMPANY DETAILS

Auditors	M/s. P. L. Tandon & Co.
Chairman	Mr. Gaur Hari Singhania
M.D	Mr. Yadupati Hari Singhania
Reg. Off	Kamla Tower, Kanpur, Uttar Pradesh-208001
Plants	Nimbahera, Mangrol and Gotan (Rajasthan)
Website	www.jkcement.com

SCRIP DETAILS

Market Capitalisation	Rs. 11.6 bn.
Book Value per share	Rs. 96
Equity Shares O/S (F.V. Rs 10)	69.9 mn.
Median Volumes (12 mths)	80,470 (BSE+NSE)
52 Week High/Low	Rs. 206 / 111
BSE Scrip Code	532644
NSE Scrip Code	JKCEMENT
Bloomberg Code	JKCE@IN
Reuters Code	JKCE.BO

SHAREHOLDING PATTERN (%)

Qtr. Ended	Sep-05	Dec-05	Mar-06
Promoters	86.2	86.2	61.6
MFs/FIs	1.6	1.0	6.5
FIIIs/NRIs/OCBs	0.4	0.4	13.1
PCBs	4.2	4.4	5.5
Indian Public/Others	7.6	8.0	13.3
Eq. shares (mn nos.)	49.9	49.9	69.9

KEY FINANCIALS (STANDALONE)

Rs Mn	Quarter Ended			Year Ended (Mar)		
	Dec-05	Mar-06	Jun-06	2006	2007E	2008E
Net Sales	2,217	2,459	2,795	8,737	10,964	12,023
YoY Gr. (%)	-	14.4	39.5	-	25.5	9.7
Op. Profit	333	456	657	1,321	2,657	3,404
Op. Marg. (%)	15.0	18.5	23.5	15.1	24.2	28.3
Net Profit	78	164	330	326	1,429	2,161
Eq. Capital	499	699	699	699	699	699

KEY RATIOS

Year Ended (Mar)	EPS (Rs.)	ROCE (%)	RONW (%)	P/E (x)	EV/Sales (x)	EV/EBDIT (x)
2006	4.7	9.9	6.1	35.6	1.3	9.9
2007E	20.4	20.8	19.5	8.1	0.9	4.5
2008E	30.9	24.3	24.5	5.4	0.8	3.4

- JK Cement Ltd. (JKC) reported a healthy revenue growth of 40% YoY to Rs 2.8 bn in Q1FY07. This was led by better realisations coupled with higher volumes in both, grey as well as white cement.
- Cement consumption in northern India grew by 15% during this quarter. Rajasthan, which accounts for 25-30% of the JKC's dispatches, posted a YoY consumption growth of 12%.
- In Q1FY07, JKC's total cement dispatches increased by 6% to ~1 mn mt. Grey cement despatches grew by 5% to 0.98 mn mt and white cement despatches grew by 20% to 0.06 in Q1FY07. Realisation of grey cement and white cement improved by 36% and 3% respectively during the period.
- Power and fuel cost rose by 21% to Rs 784/ ton in Q1FY07. Freight and handling charges spurt by 33% YoY (Rs 568 vs. 427 per mt) during the quarter.
- OPM perked up by 1100 bps to 23.5% in Q1FY07. This was driven by higher cement realisations and increase in proportion of blended cement.
- While, other income remained flat during the quarter, interest costs witnessed a dip of 34%, due to partial repayments of debt coupled with interest earned on proceeds of recent public issue. Depreciation increased by 8% to Rs 82 mn.
- Higher realisations, low interest cost and lower effective tax, led to almost ten-fold jump in net profit to Rs 330 mn in Q1FY07.
- At the CMP of Rs 166; JKC is trading at a P/E of 8.1x and EV/ton of \$69, discounting its FY07E numbers. JKC is available at significant discount to its peers and even below the replacement cost.
- Considering the demand supply imbalance in northern region, scope for improvement in its operational efficiency and strong cement prices, we upgrade our recommendation from 'HOLD' to 'BUY'.

Aug 11, 2006

Sensex : 11182

Nifty : 3272

CMP : Rs 166

Recomm : BUY

JK Cement is going through very crucial stage. At one side, it is investing heavily to become operationally efficient and at other end to maintain its market share and diversify its presence by putting up 3 mn mt greenfield plant in southern region.

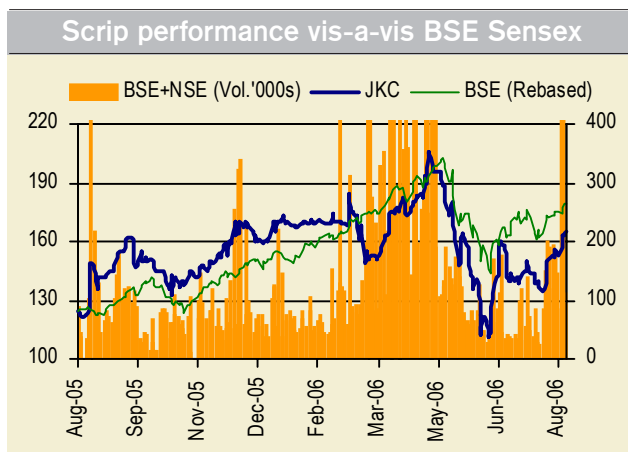
The company has identified two key areas to focus further to improve operational efficiency:

1) Captive power plants to rationalise its power cost 2) Increase in proportion of blended cement. In spite of having 4.35 mn mt (0.5 mn mt grinding unit commissioned in Jun'06) cement capacity, it is sourcing over 70% of its power requirement from grid.

JKC's qtrly operational matrix					
Rs. per mt	Jun'06	Mar'06	Dec'05	Sep'05	Jun'05
Raw material	277	153	141	242	254
Staff cost	139	132	112	118	103
Power & Fuel	784	853	809	713	649
Stores & Spares	236	198	200	200	190
Freight & Handling	569	607	499	453	427
Oth. Expenditure	237	248	221	218	192
Cost per mt prod.	1,673	1,583	1,482	1,491	1,388
Op. Profit per mt	632	492	348	305	255

To rationalise its power cost, JKC is investing heavily in setting up a captive power plants (CPP):

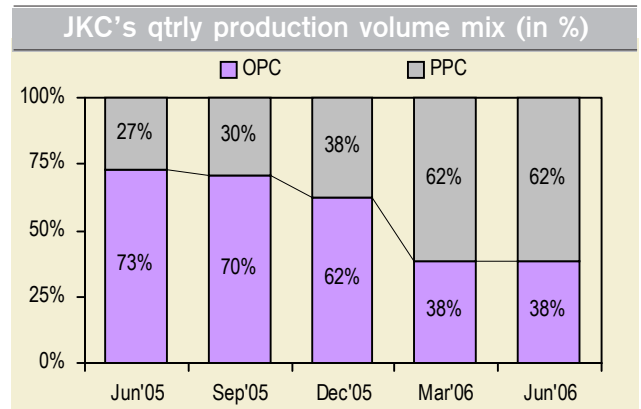
1) Installing waste heat recovery power plant of 13.2 mw at its Nimbahera plant. Variable cost of producing power from this plant is estimated to be ~85% lower than grid cost, which should result in substantial savings on power & fuel cost front.



2) The company is also setting up 20 MW captive power plant based on petcoke at its Nimbahera plant. Both the power plants are expected to be operational by Q1FY08 at Nimbahera.

3) JKC is replacing the existing turbine of its power plant at Bamania of 7.5 MW with a new 10 MW turbine by Dec'06.

After commissioning of the CPP, total thermal power capacity of JKC will increase to 57.2 MW, sufficient to meet its entire requirement. These power plant will result in post tax savings of ~Rs 500 mn on an annualised basis.



The company is also focusing, from last two quarters, on increasing the proportion of blended cement in total cement production, since the cost of production of blended cement is lower by 100-125/mt than OPC. The company has increased proportion of blended cement from 27% in Q1FY06 to 62% in Q1FY07. The company has commissioned 0.5 mn mt grinding unit

JKC's capex plans			
Particulars	Location	Capex (Rs mn)	Completion Date
Waste heat recovery plant of 13.2 mw cap.	Nimbahera	1,110	Jun-07
Captive power plant of 20 mw	Nimbahera	850	Apr-07
Rep. of an existing turbine of 7.5 mw with 10 mw turbine	Bamania	85	Dec-06
Setting up grinding unit of 0.5 mn mt	Nimbahera	225	Completed Jun-06
Increase in prod. cap. of white cement by 0.10 mn mt	Gotan	90	Dec-06

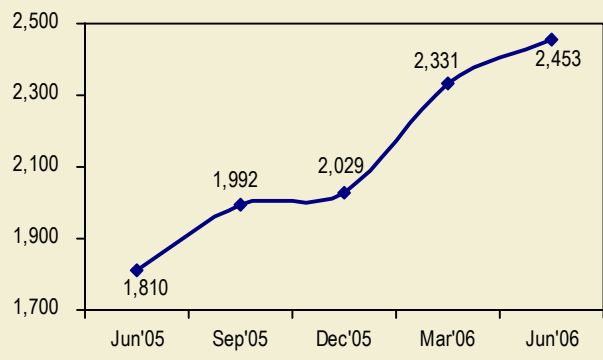
at its Nimbahera plant for the same purpose. After this JKC's grey cement capacity increased to 4 mn mt.

JKC is the second largest producer of white cement in India. White cement market is dominated by two players (Birla & JK) leading to stable prices, hence white cement has generated more stable cash flows

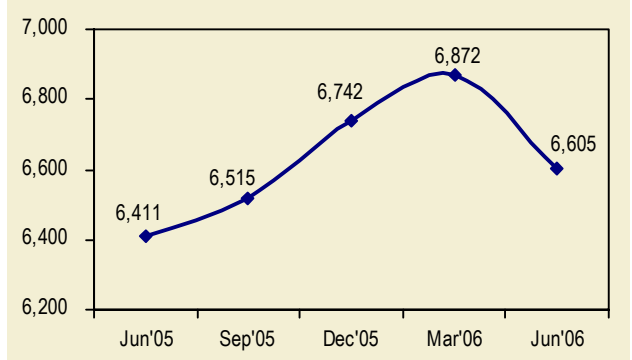
share of face value of Rs 10 each at rate of Rs 148. As a result, the equity share capital of JKC increased from Rs 499.3 mn to Rs 699.3 mn.

To derisk its business model the company is also diversifying into southern region by putting up greenfield plant in of 3 mn mt in Karnataka by Sep'08.

JKC's qtrly Grey Cem. net realisations (Rs/mt)



JKC's qtrly White Cem. net realisations (Rs/mt)



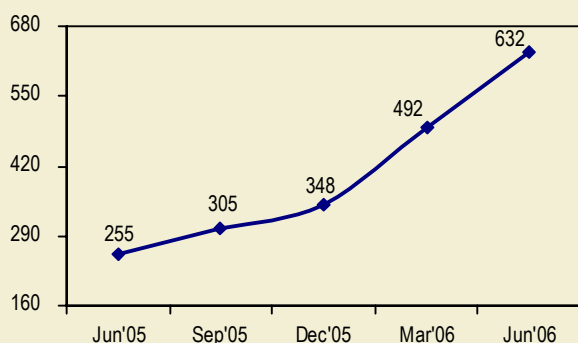
even during industry downturn. The company is increasing its white cement production capacity by 0.10 mn mt, at its existing white cement plant at Gotan, by Dec'06. Out of this, 0.05 mn mt has already commissioned in Mar'06. This will increase its white cement capacity to 0.4 mn mt. White cement plant is running at 70%-72% capacity utilisation, but JKC is still increasing the capacity. The rationale behind expansion is to fulfill white cement demand in peak season between Sep-Nov and to maintain market share, as Birla white has also increased its capacity by 0.75 lac mt to 4.75 lac mt.

To fund the above mentioned expansions, the company raised Rs 3 bn, through a follow on public issue in Feb'06. The issue comprised of 20 mn fresh equity

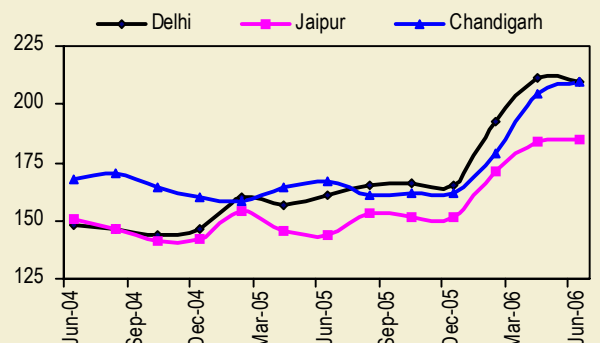
The company has acquired 100% shares of JayKay Cem Ltd, which has limestone mines in karnataka having ~ 82 mn mt of limestone reserve. The capital outlay excluding interest during construction was projected at Rs 7.5 bn, with 50% funding through internal accruals.

As compared to other players in the industry, JKC has very low EBIDTA/ton. The same can be attributed to high power & fuel cost and lower proportion of blended cement in total production. The company is taking right steps by setting up captive power plants and grinding unit. This will result in substantial saving on operating cost front, thereby impacting its EBIDTA/ton positively in coming years.

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



Cement prices in northern region (Rs/bag)



JKC posted decent results in Q1FY07, largely driven by spurt in net realisations of grey cement.

JKC's grey cement despatches grew by 5% YoY to 0.98 mn mt in Q1FY07. However, white cement despatches grew by 19% to 0.59 lakh mt in Q1FY07.

JKC's net revenues improved by 40% YoY to Rs 2.8 bn, on back of cement prices hardening by Rs 30-40/bag across north India during this quarter. Grey cement realisations increased by 36% YoY to Rs 2,453/mt and white cement realisations by 3% YoY to Rs 6,605/mt, during the period under review.

JKC's power & fuel cost witnessed an increase of 21% YoY (Rs 784/mt vs Rs 649/mt). This can be attributed to two reasons: first higher growth in white cement despatches, which require higher power & fuel and secondly, in Q1FY06 the company used to fulfill 40% of its power requirement through DG Set which was feasible then but switched to grid power completely following a steep rise in oil prices.

Freight and handling costs rose considerably during the quarter, mainly due to the rise in freight rates, on account of the Supreme Court ruling on overloading of trucks. Currently, ~85% of JKC's despatches are by road. However, the company is trying to bring down this portion to 70%.

Owing to the upsurge in net realisations, op. margins vaulted 1100 bps YoY to 23.5%. This expansion was also on back of higher proportion of blended cement (i.e. 62% PPC in Q1FY07 v/s 27% PPC in Q1FY06) and higher realisations. Operating profit per ton jumped by 148% to Rs 632/mt in Q1FY07.

JKC's net interest costs declined by 34% to Rs 82 mn, due to interest earned on residual amount of cash

raised through public issue, which is yet not deployed. Net profit jumped over ten-fold to Rs 330 mn in Q1FY07, on back of higher operating profits.

Cement demand-supply scenario continues to remain favorable in north India, due to strong demand and marginal capacity addition over the next 18 months. Cement consumption in this region is expected to grow at a CAGR of 9-10% over next 2 years. Hence, we expect cement prices to remain firm in near future.

Northern region exhibited strong growth of 15% to 7.3 mn mt in Q1FY07. In Rajasthan, cement consumption grew by 12% to 2.2 mn tons. In Punjab and Haryana (34% of JKC's despatches), consumption grew by 17% during the quarter to 3.8 mn tons.

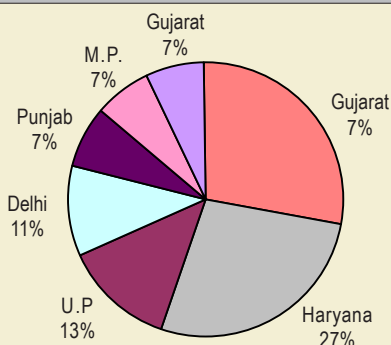
On the operations front, we expect JKC's cement despatches to grow by 8% YoY to 4.0 mn mt and net realisations improving by 20%. This should translate into a 25% rise in revenues to Rs 10.9 bn in FY07.

Higher economies of scale (reduction in power cost and increase in proportion of blended cement) and better realisations should increase OPM to 24%, with net profit spurring 340% YoY to Rs 1.4 bn in FY07. However, company will be able to take full benefit of lower power cost in FY08 only.

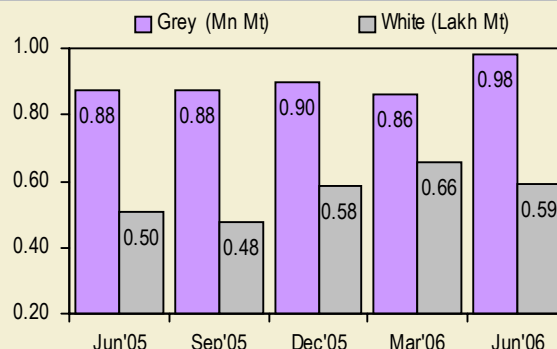
At the CMP of Rs 166, JKC is trading at a P/E of 8.1x, EV/sales of 0.9x, EV/EBIDTA of 4.5x and EV/ton of \$69/mt, discounting its FY07E earnings.

We expect demand supply imbalance in northern region and strong prices atleast over a period of next 2-3 quarters. We believe that JKC has lot of scope to improve its operational efficiency, due to captive power and increase in proportion of blended cement. Hence, we upgrade our recommendation from 'HOLD' to 'BUY', as valuations are attractive.

JKC's region wise sales mix (FY06)



JKC's qtrly despatches trend

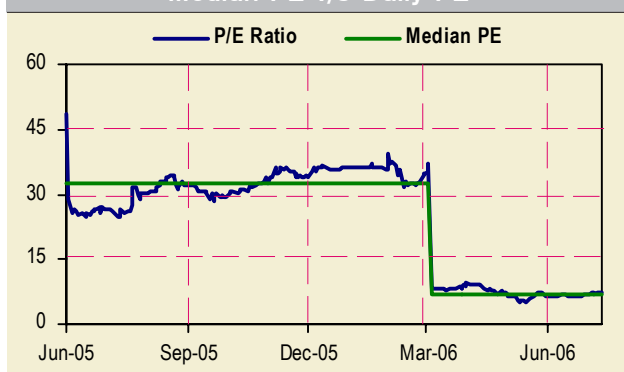


Financial results for the quarter ended Jun '30, 2006 (Standalone)

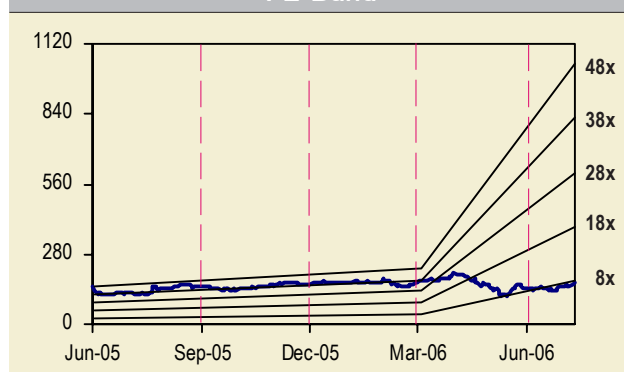
Particulars (Rs mn)	Quarter Ended			Year Ended		
	30/06/06	30/06/05	Gr %	31/03/06	31/03/05*	Gr %
Net Sales	2,795	2,003	39.5	8,737	3,294	
Grey Cement	2,404	1,683	42.8	7,258	2,715	
White Cement	391	320	22.3	1,479	579	
(Inc)/Dec in Stock	(33)	57		(156)	(96)	
Consumption of Raw Material	293	190		904	367	
Staff Cost	122	95	28.4	412	161	
Power & Fuel	736	631	16.6	2,856	1,202	
Stores & Spares	221	185	19.5	744	305	
Freight & Handling Outward	591	418	41.4	1,877	660	
Other Expenditure	208	177	17.5	779	313	
Total Expenditure	2,138	1,753	22.0	7,416	2,912	
Operating Profit	657	250	162.8	1,321	382	
Other Income	7	8	(12.5)	93	94	
EBDIT	664	258	157.4	1,414	476	
Depreciation	82	76	7.9	310	126	
PBIT	582	182		1,104	350	
Interest (Net)	82	124	(33.9)	582	243	
PBT & extra-ord items	500	58	762.1	522	107	
Provision for current tax	110	5		43	5	
Provision for deferred tax	58	16		138	36	
Provision for FBT	2	2		15	2	
Net Profit	330	35	842.9	326	64	
Paid-up Equity Cap (FV of Rs 10 per share)	699	499		699	499	
Reserves(excl rev res)	-	-		326	63	
EPS for the Period(Rs)	4.7	0.7		4.7	3.1	
Book Value per share (Rs)	-	-		96	79	
OPM (%)	23.5	12.5		15.1	11.6	
NPM (%)	11.8	1.7		3.7	1.9	
Grey Cement Despatches (mn mt)	0.98	0.93	5.4	3.51	1.42	
White Cement Despatches (mn mt)	0.06	0.05	18.7	0.22	0.10	
Net Realisation(Rs/ mt)						
Grey Cement	2,453	1,810	35.5	2,067	1,907	8.4
White Cement	6,605	6,411	3.0	6,641	5,839	13.7
Operating Profit (Rs/mt)	632	255	147.8	354	251	41.0

* FY05 has only Five Months.

Median PE v/s Daily PE



PE Band



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