9th August, 2006

Analyst Meet Note

RELIGARE
Values that bind

J K Cement | Not Rated | Current Price: Rs.164

Indian indices

Sensex	11,145
Nifty	3,255

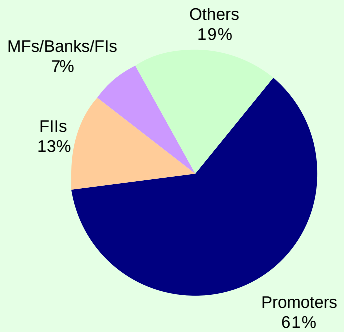
Stock codes

BSE Code	532644
NSE Code	JKCEMENT
Reuters Code	JKLC.BO
Bloomberg Code	JKCE@IN

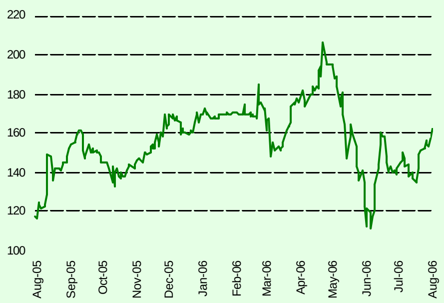
Average volume traded in

3 month	43,909
6 month	131,848
12 month	106,701

Shareholding Pattern



Stock price movement



Manak Gaushal
manak.gaushal@religare.in
+91 22 4007 4860

Vishal Sheth
vishal.sheth@religare.in

Company profile

JK Cement was incroporated by acquiring the assets of the cement division of JK Synthetics in Nov'04 and is a part of the JK Group. JK Cement, operates 2 grey cement plants with an aggregate capacity of 4mn MT at Nimbahera and Mangrol in Rajasthan. It is the 2nd largest producer of white cement in India with an installed capacity of 3.5 lac MT at its Gotan facility in Rajasthan. They are market leaders in Haryana with 18.2% market share and are among the top 3 players in Delhi with 13.4% market share.

Key takeaways

- JK Cement has embarked on a greenfield capacity expansion of 3mn MT in Karnataka (near Belgaum) at a capex of Rs7.5bn, which is expected to be commissioned by Dec'08. The said expansion will diversify its operations which are currently concentrated in the northern region. The Plant would have a clinker capacity of 2.25mn MT and cement capacity of 3mn MT.
- JK Cement will acquire 100% of JayKayCem Ltd, a group company. It will be a strategic investment as JayKayCem Ltd has a limestone mining lease for 20 years at Bagalkot district in Karnataka and is in the close proximity to the JK Cement's proposed cement plant. The total acquisition cost would be Rs52.5mn.
- JK Cement has earmarked Rs2.05bn to setup captive power plants aggregating 43 MW at its existing facilities.

Plant	Capacity	Capex (mn)	Comments
Bamania	10 MW	85	Replacing existing 7.5 MW with a 10 MW turbine, expected to be commissioned by Dec'06
Nimbahera	20 MW	850	Pet coke based CPP expected to be commissioned by Apr'07
Nimbahera	13.2 MW	1,110	Waste heat recovery plant expected to be commissioned by Jun'07

The commissioning of power plants is expected to reduce the power cost to Rs2/unit from the current Rs4.7/unit and its dependence on grid power. JK Cement's power consumption for FY06 was 364.8mn units. We expect savings to the tune of Rs1,000mn for the company.

Valuations

At the current price of Rs164, the stock is trading at a trailing P/E of 15.8x, EV/EBIDTA of 10.9x and EV/tonne of US $69 for FY06. Significant improvement in operating efficiency and forthcoming capacity expansions should add to JK cements valuations.

Rs Mn (31st Mar)	FY05	FY06
Revenues (Rs. mn)	3,294	8,737
EBIDTA (Rs. mn)	382	1,320
Net profit (Rs. mn)	63	326
P/E (x)	130.0	35.2
RoCE (%)	3.4	8.8
RoE (%)	1.6	4.8
EV/EBITDA (x)	36.4	10.9
EV/ton (US$)	66.5	69.0

Source: Company

- JK Cement has utilized Rs963mn from the proceeds of Rs2960mn raised through the public offer in Mar'06 for the capacity expansion of their cement units and the proposed captive power projects as envisaged in the public offer document.

- The company expects a reduction in tax liability in FY08 and FY09 on account of higher depreciation provisions post commissioning of the power projects and its new facility in Karnataka.

Q1FY07 highlights

- JK Cement reported Q1FY07 net profit at Rs330mn, up 843% YoY and 101% QoQ. Operating profits surged by 163% YoY and 44% QoQ with operating margin improving to 24%. Volume and realisation growth for the period was 5% and 28% respectively.

- Interest burden for the quarter saw a reduction of 33% as the company retired some of its high cost debt. The company's debt/equity ratio currently stood at 1.4x which it aims to bring it down at 1:1 by Mar'07. The cost of long term debt is approx 10%.

- JK Cements estimates a turnover of Rs14bn and an EBIDTA of Rs 2.7bn for FY07 as compared to a turnover of Rs11.1bn and EBIDTA of Rs.1.3bn in FY06.

Business highlights

- JK Cement is engaged in manufacturing of grey cement and white cement. Grey cement production increased 5% to 0.9mn MT. The production of blended cement surged 135% to 0.58mn MT and was 62% of the total grey cement production in Q1FY07. It aims to increase it to 75% in current fiscal.

- JK Cement commissioned 0.5mn MT grey cement capacity at a cost of US $10/tonne at its Nimbahera facility in June'06. It now has an aggregate capacity of 4.0mn MT grey cement in northern region.

- It is the 2nd largest producer of white cement in India and has undertaken a brown field capacity expansion plan of 0.05mn MT at its existing facility. The expected cost of expansion would be US $40/tonne and is scheduled to be commissioned by Sep'06.

- Average realization in company's major markets are

Grey Cement	Rs180-200
White Cement	Rs.450-500

- The company estimates an EBIDTA/tonne of Rs750 for grey cement and Rs1500 for white cement.

Carbon credits

The company estimates an annual earning of Rs70-80mn from the sale of carbon credits to be generated from its Waste Heat Recovery Plant at Nimbahera. The registration process for the project has been completed and is expected to generate revenues from FY08.

Quarterly performance

Rs mn	Q1FY07	Q1FY06	% change	Q4FY06	% change	FY06	FY05	% change
Net sales	**2,795**	**2,003**	**39.5**	**2,459**	**13.7**	**8,737**	**3,294**	**165.2**
Total expenditure	**2,138**	**1,753**	**22.0**	**2,003**	**6.7**	**7,416**	**2,912**	**154.7**
Stock adjustments	(33)	57	(157.9)	(127)	(74.0)	(156)	(95)	63.4
Raw materials	293	190	54.2	269	8.9	904	366	147.2
Staff cost	122	95	28.4	113	8.0	412	161	156.3
Power & fuel	736	631	16.6	790	(6.8)	2,856	1,202	137.6
Stores & spares	221	185	19.5	183	20.8	744	100	641.7
Freight cost	591	418	41.4	562	5.2	1,877	660	184.5
Other expenditure	208	177	17.5	213	(2.3)	779	519	50.2
EBITDA	**657**	**250**	**162.8**	**456**	**44.1**	**1,321**	**382**	**245.6**
EBITDA margin (%)	23.5	12.5	88.3	18.5	26.8	15.1	11.6	30.3
Other income	7	8	(12.5)	33	(78.8)	48	94	(49.0)
Depreciation	82	76	7.9	80	2.5	310	126	146.8
EBIT	**582**	**182**	**219.8**	**409**	**42.3**	**1,059**	**351**	**202.0**
EBIT margin (%)	20.8	9.1	129.2	16.6	25.	12.1	10.6	13.9
Interest (Net)	82	124	(33.9)	143	(42.7)	537	243	121.3
PBT	**500**	**58**	**762.1**	**266**	**88.0**	**522**	**108**	**383.5**
PBT margin (%)	17.9	2.9	517.8	10.8	65.4	6.0	3.3	82.3
Tax	170	23	639.1	102	66.7	196	45	335.6
Fringe benefit tax	2	2	0.0	8	(75.0)	15	0	
Current tax	110	5	2100.0	21	423.8	43	9	377.8
Deffered tax	58	16	262.5	73	(20.5)	138	36	283.3
PAT	**330**	**35**	**842.9**	**164**	**101.2**	**326**	**63**	**417.7**
PAT margin (%)	11.8	1.7	575.7	6.7	77.0	3.7	1.9	95.2
EPS (Basic/Diluted) (Rs.)	**4.7**	**0.7**	**573.1**	**3.0**	**58.4**	**6.4**	**1.6**	**300.6**

Income statement

Y/E, 31st March (Rs mn)	FY05	FY06
Net sales	**3,294**	**8,737**
Total expenditure	**2,912**	**7,417**
Raw materials	366	904
Power & fuel cost	1,202	2,856
Employee cost	161	412
Other manufacturing expenses	279	698
Selling and administration expenses	899	2,453
Stores consumed	100	249
Stock adjustment	(95)	(156)
EBITDA	**382**	**1,320**
EBITDA margin (%)	11.6	15.1
Other income	94	94
Depreciation	126	310
EBIT	**351**	**1,104**
EBIT margin (%)	10.6	12.6
Interest	243	582
PBT	**108**	**522**
PBT margin (%)	3.3	6.0
Tax	45	196
PAT (Reported)	**63**	**326**
PAT margin (%)	1.9	3.7
EPS (Basic/Diluted) (Rs.)	**1.3**	**4.7**

Balance sheet

Y/E, 31st March (Rs mn)	FY05	FY06
Sources of funds		
Share capital	499	699
Reserves	3,434	6,043
Shareholders funds	**3,933**	**6,743**
Secured loans	4,746	4,431
Unsecured loans	1,666	1,390
Total liabilities	**10,346**	**12,564**
Application of funds		
Gross block	9,211	9,592
Less: Accumulated depreciation	178	612
Net block	9,032	8,980
Capital work in progress	178	569
Current assets, loans & advances		
Inventories	666	840
Sundry debtors	423	461
Cash and bank	681	2,854
Loans and advances	902	939
Total current assets	**2,672**	**5,094**
Current liabilities	1,517	1,797
Provisions	–	126
Total current liabilities	**1,517**	**1,923**
Net current assets	1,155	3,170
Miscellaneous expenses not written off	17	19
Deferred tax liability	(36)	(174)
Total assets	**10,346**	**12,564**

Ratio analysis

Y/E, 31st March (Rs mn)	FY05	FY06
Growth (%)	–	
Net sales	–	165.2
EBIDTA	–	245.4
EPS	–	269.3
Valuations (x)		
P/E	130.0	35.2
P/Cash Earnings	43.4	18.0
BVPS	78.8	96.4
P/BV	2.1	1.7
EV/Sales	4.2	1.7
EV/EBIDTA	36.4	10.9
EV/tonne ($)	66.5	69.0
Replacement cost	1.3	1.1
Profitability (%)		
EBITDA margin	11.6	15.1
EBIT margin	10.6	12.6
PAT margin	1.9	3.7
RoE	1.6	4.8
RoCE	3.4	8.8

For inquiries contact – research@religare.in; sales@religare.in

Ph. : 30907336 / 56550105

Institutional Sales / Dealing : 22087191 / 22087186

Religare Securities Ltd. – Taj Building, 210, DN Road, Mumbai 400001 Tel: 22073191, HNI Sales: 56550154 / 56550176
Delhi - 19, Nehru Place, New Delhi-110019
Tel: 91-11-55562200 Fax: 91-11-55562277