

<b>J K Lakshmi Cement Limited</b>	CMP Rs. 74.5 BUY	Q3FY10 Result Update
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JK Lakshmi Cement (JKLC) reported a robust Q3 FY2010 performance which was more or less in line with our estimates.

### Highlights of the Quarter:

- Gross Sales for the Quarter stood at Rs.3,900mn (up 13.4% Y-o-Y and 2.8% Q-o-Q)
- Higher sales were mainly achieved because of a higher volume of 11.63 lac ton (up 17% Y-o-Y and 15% Q-o-Q)
- However cement realizations took a hit as prices declined in all major markets. Net Realizations stood at Rs.3,083/ton (up 1.6% Y-o-Y but down 11.4% Q-o-Q)
- From JKLC's target markets, Gujarat & Maharashtra saw the maximum price decline (almost Rs.18/bag) due to supply glut coming from the Southern States. However, Rajasthan and North Indian markets saw relatively less price declines (Rs 5-6/bag). Since January, prices have already started increasing in Gujarat, Maharashtra & Delhi from the lows seen during the third quarter. Also, going ahead, prices are expected to be stable in the Northern Markets due to delay in commissioning of capacities. Hence we expect Realizations to be slightly better in the next quarter
- On the raw material front, price of Pet-coke for JKLC has increased as expected. The average cost of Pet-coke for JKLC stood at Rs.4,800/ton for the quarter. Going ahead, we expect JKLC to book Pet-coke at similar prices
- There was a severe shortage of Railway wagons to transport cement in the first two months of the quarter as many wagons were diverted to transport food grains (to check runaway food price inflation). As a result, most cement companies had to use road transport (instead of rail transport) which resulted in increased freight costs. JKLC's freight cost on a per ton basis increased to Rs.592/ton. Logistic problems were also responsible for creating a supply constraint during the quarter, thereby causing a reduction in volumes and an increase in prices across the industry
- As expected, JKLC's blending ratio has decreased from 70% in the second quarter to 64% in the third quarter of FY10 due to overcapacity in the industry. Reducing blending ratio is the first step by which producers cut back effective cement production (without stopping their kilns)
- Even though the Earning Before Taxes (EBT) at Rs.677mn was 20% higher than in Q3 FY09, the Net Profit at Rs.454mn was lower by 19% as compared to the same period in Q3 FY09. This was mainly due to the higher Tax outflow as the company has migrated from MAT regime to a Normal Tax regime. JKLC's effective tax rate stood at 33% for this quarter
- JKLC has further improved its cash position in this quarter. Cash & Cash Equivalents now stand at Rs. 5,500mn. On the other hand, Gross Debt has decreased to Rs.5,800mn, which results in a net debt of Rs.300mn

### Other Developments:

- JKLC will set up its new split grinding unit of 0.55 MTPA in Jhajhar district of Haryana which will take the overall cement production capacity to 5.3 MTPA. The company is already in the process of augmenting its clinker capacity at Sirohi (Rajasthan) to supply clinker to this new unit. The unit is expected to be commissioned by March 2011. Going ahead, this new unit will help in bringing down the average lead distance and hence the freight costs
- Construction of new Thermal (18MW) and Waste Heat Recovery (12MW) power plants is on schedule and expected to be commissioned by March 2011. However, there is a further delay in getting 21MW power from VS Lignite, which would be available only after March 2010
- There has been a split in the face value of the equity share from Rs.10 each to Rs.5 each

**Our View:**

Even though the share price of JK Lakshmi Cement has risen by almost 25% since our last report, at the current market price of Rs.74.5, the Enterprise Value (EV) stands at \$45/ton. This valuation (based on EV/ton) is at a significant discount to the replacement cost of 100/ton. We believe that JKLC's consistent operational as well as financial performance does not warrant such a deep discount. Also, commissioning of power capacities and split grinding unit will only add to JKLC's efficiencies in the future .We maintain BUY.

**JK Lakshmi Cement : Q3FY10 Quarterly Analysis**

Particulars (Rs Mn)	Q3 FY10	Q3 FY09	Q-o-Q	Q3 FY10	Q2 FY10	Y-o-Y	9M FY10	9M FY09	Y-o-Y
Net Sales	3,532.4	2,973.5	18.8%	3,532.4	3,451.9	2.3%	10,492.4	8,601.2	22.0%
Other Operating Income	0.7	3.8		0.7	1.6		3.4	11.1	
Total Revenue	3,533.1	2,977.3	18.7%	3,533.1	3,453.5	2.3%	10,495.8	8,612.3	21.9%
Total Expenditure	2,642.9	2,191.6	20.6%	2,642.9	2,311.1	14.4%	7,269.0	6,615.2	9.9%
EBIDTA	890.2	785.7	13.3%	890.2	1,142.4	-22.1%	3,226.8	1,997.1	61.6%
Depreciation	177.5	175.2	1.3%	177.5	205.0	-13.4%	587.5	549.8	6.9%
EBIT	712.7	610.5	16.7%	712.7	937.4	-24.0%	2,639.3	1,447.3	82.4%
Interest Cost	48.8	47.3	3.2%	48.8	53.6	-9.0%	123.6	229.7	-46.2%
Other Income	13.2	0.1		13.2	23.9		74.0	5.2	
EBT	677.1	563.3	20.2%	677.1	907.7	-25.4%	2,589.7	1,222.8	111.8%
Tax	223.6	2.9		223.6	436.0		879.6	6.7	
- Current	111.7	64.2		111.7	154.3		436.8	138.5	
- Deferred	146.6	-		146.6	436.0		802.6	-	
- MCE	(34.7)	(64.2)		(34.7)	(154.3)		(359.8)	(138.5)	
- FBT	-	2.9		-	-		-	6.7	
PAT	453.5	560.4	-19.1%	453.5	471.7	-3.9%	1,710.1	1,216.1	40.6%
EPS	3.7	4.6		3.7	3.9		13.8	9.9	
<b>Ratio Analysis</b>									
EBIDTA (%)	25.2%	26.4%		25.2%	33.1%		30.8%	23.2%	
Tax Rate (%)	33.0%	0.5%		33.0%	48.0%		34.0%	0.5%	
PAT (%)	12.8%	18.8%		12.8%	13.7%		16.3%	14.1%	
Net Realisation /ton (Rs)	3037	2988		3037	3428		3298	2984	
EBIDTA /ton (Rs)	765	790		765	1134		1014	693	
P&F /ton (Rs)	675	720		675	665		661	814	
Employee /ton (Rs)	168	179		168	196		183	172	
Freight /ton (Rs)	591	484		591	588		578	506	
Raw Material /ton (Rs)	433	410		433	506		481	417	

## JK Lakshmi Cement : Financials

Earnings Statement							
Particulars (Rs Mn)	FY 05	FY 06	FY 07	FY 08	FY 09	FY 10(E)	FY 11(E)
Total Revenues	4,867.8	5,824.8	8,438.3	11,076.6	12,245.3	14,246.0	14,929.3
- Growth (%)		19.7%	44.9%	31.3%	10.6%	16.3%	4.8%
Total Expenditure	4,239.0	4,562.5	5,973.6	7,558.6	9,079.0	9,849.0	10,981.1
Operating Profit	628.8	1,262.3	2,464.7	3,518.0	3,166.3	4,397.0	3,948.2
Other Income	144.4	25.7	128.3	61.6	0.7	74.0	22.8
EBITDA	773.2	1,288.0	2,593.0	3,579.6	3,167.0	4,471.0	3,971.0
Depreciation	489.6	530.6	443.4	585.3	691.0	913.2	1,096.5
EBIT	283.6	757.3	2,149.6	2,994.3	2,476.0	3,557.8	2,874.5
Interest	43.9	194.8	361.4	278.5	209.1	247.0	445.7
PBT	239.7	562.5	1,788.2	2,715.8	2,266.9	3,310.8	2,428.8
Tax	(4.3)	8.0	7.1	269.3	481.2	1,120.0	825.6
PAT Before EI	244.0	554.5	1,781.1	2,446.5	1,785.7	2,190.8	1,603.3
- Growth (%)		127.3%	221.2%	37.4%	-27.0%	22.7%	-26.8%
Extra-ordinary Items	15.7	0.0	0.0	(209.8)	0.0	0.0	0.0
PAT	259.7	554.5	1,781.1	2,236.7	1,785.7	2,190.8	1,603.3
Ratio Analysis							
Particulars	FY 05	FY 06	FY 07	FY 08	FY 09	FY 10(E)	FY 11(E)
OPM (%)	12.9%	21.7%	29.2%	31.8%	25.9%	30.9%	26.4%
EBITDA (%)	15.9%	22.1%	30.7%	32.3%	25.9%	31.4%	26.6%
PBIT (%)	5.8%	13.0%	25.5%	27.0%	20.2%	25.0%	19.3%
PAT (%)	5.3%	9.5%	21.1%	20.2%	14.6%	15.4%	10.7%
Interest Cover (x)	6.5	3.9	5.9	10.8	11.8	14.4	6.4
EPS (Rs.)	2.3	5.6	15.6	18.3	14.6	17.9	13.1
P/E (x)	32.7	13.8	4.9	4.2	5.3	4.3	5.9
P/BV (x)	5.2	3.6	1.9	1.3	1.1	0.91	0.83
BVPS (Rs.)	14.8	21.4	41.3	58.7	71.8	84.8	93.0
Market Cap (Rs. Mn.)	8,501.2	7,647.5	8,772.7	9,403.3	9,403.3	9,403.3	9,403.3
M Cap/Sales (x)	1.7	1.3	1.0	0.8	0.8	0.7	0.6
EV (Rs. Mn.)	13,534.3	14,441.5	13,338.9	12,014.1	11,520.4	11,320.9	14,316.4
EV/EBITDA (x)	17.5	11.2	5.1	3.4	3.6	2.5	3.6
EV/Sales (x)	2.8	2.5	1.6	1.1	0.9	0.8	1.0
ROCE (%)	3.3%	8.4%	17.9%	21.0%	15.7%	22.0%	16.7%
RONW (%)	14.9%	26.0%	37.8%	34.1%	20.3%	21.1%	14.1%
Debt/Equity Ratio (x)	4.3	3.2	1.5	1.0	0.8	0.6	0.5
Inventory T/o Days	24.6	23.0	24.1	20.5	19.7	22.1	21.7
Debtors T/o Days	12.2	13.2	7.7	6.1	7.0	6.6	7.3
Advances T/o Days	25.6	77.9	50.9	53.3	64.4	32.7	32.9
Creditors T/o Days	17.4	15.6	19.8	22.3	26.3	23.0	25.6
Working Cap T/o Days	37.8	88.7	122.3	161.0	124.2	90.7	19.3
Fixed Assets T/o (Gross)	0.8	0.8	1.0	1.2	1.1	1.1	0.9
DPS (Rs.)	0.0	0.0	1.0	2.5	4.0	4.0	4.0
Dividend Payout (%)	0.0%	0.0%	6.4%	13.7%	27.4%	22.3%	30.5%
Dividend Yield (%)	0.0%	0.0%	1.3%	3.3%	5.2%	5.2%	5.2%

## JK Lakshmi Cement : Financials

Balance Sheet							
Particulars (Rs Mn)	FY 05	FY 06	FY 07	FY 08	FY 09	FY 10(E)	FY 11(E)
Equity Capital	552.9	497.7	570.9	611.9	611.9	611.9	611.9
Reserves	1,081.2	1,635.5	4,142.9	6,566.5	8,168.2	9,760.2	10,763.3
Shareholders Funds	1,634.0	2,133.2	4,713.7	7,178.4	8,780.1	10,372.1	11,375.2
Borrowed Funds	6,975.3	6,917.0	7,296.4	7,078.4	7,026.7	5,800.1	5,796.2
Deferred Tax Liability	(380.4)	(380.4)	(380.4)	(120.0)	351.0	980.0	1,319.8
<b>Total Liabilities</b>	<b>8,228.9</b>	<b>8,669.7</b>	<b>11,629.7</b>	<b>14,136.8</b>	<b>16,157.8</b>	<b>17,152.2</b>	<b>18,491.2</b>
Fixed Assets	5,999.9	7,252.9	8,221.3	9,119.7	11,101.5	13,136.7	17,434.8
Investments	1,716.0	1.1	581.1	130.3	889.1	474.4	267.1
Current Assets							
Inventory	327.5	366.4	558.2	621.8	660.2	862.0	887.4
Sundry Debtors	162.4	209.9	177.6	186.1	233.2	258.9	298.6
Loans & Advances	342.0	1,242.9	1,176.9	1,618.9	2,159.4	1,276.0	1,344.7
Cash & Bank Balance	226.2	121.9	2,149.2	4,337.2	4,020.4	3,408.0	616.0
Current Liabilities							
Sundry Creditors	232.3	248.6	458.8	675.6	881.2	899.3	1,046.5
Provisions	53.0	17.7	172.9	545.1	1,192.7	664.9	711.0
Other Current Liabilities	269	259	603	657	832	700	600
Net Current Assets	503.7	1,415.7	2,827.4	4,886.8	4,167.2	3,540.8	789.2
Miscellaneous Expenditure	9.3	0.0	0.0	0.0	0.0	0.0	0.0
<b>Total Assets</b>	<b>8,228.9</b>	<b>8,669.7</b>	<b>11,629.7</b>	<b>14,136.8</b>	<b>16,157.8</b>	<b>17,152.0</b>	<b>18,491.1</b>
Cash Flow							
Particulars (Rs Mn)	FY 05	FY 06	FY 07	FY 08	FY 09	FY 10(E)	FY 11(E)
Opening Cash & Bank	106.3	226.2	121.9	2,149.2	4,337.2	4,020.4	3,408.0
Profit After Tax	259.7	554.5	1,781.1	2,236.7	1,785.7	2,192.1	1,603.3
Investment Income	(70.3)	(55.1)	(101.0)	(306.9)	(334.9)	(264.9)	(162.4)
Interest Paid	72.0	223.1	438.9	539.6	495.1	595.2	595.7
Miscellaneous Exp W/Off	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Depreciation	489.6	530.6	443.4	585.3	691.0	913.2	1,096.5
Deferred Taxation	(4.3)	0.0	0.0	(8.6)	215.3	623.2	339.8
Others	(179.0)	308.9	46.9	193.0	(66.0)	861.0	0.0
Change in Working Cap	(8.6)	(994.8)	431.2	301.2	358.7	(841.4)	(40.4)
CF - Operating Activities	559.2	567.3	3,040.4	3,540.3	3,144.9	4,078.4	3,432.5
Change in Fixed Assets	10.5	(1,773.6)	(1,536.1)	(1,580.9)	(2,238.0)	(2,975.9)	(5,422.0)
Change in Investments	28.6	1,718.1	(558.1)	495.9	(749.0)	414.7	207.4
Investment Income	39.0	28.4	77.6	261.2	286.9	264.9	162.4
CF - Investing Activities	78.1	(27.1)	(2,016.6)	(823.8)	(2,700.1)	(2,296.3)	(5,052.2)
Increase in Equity	0.0	(363.1)	1,062.9	715.7	0.0	0.0	0.0
Changes in Borrowings	(445.4)	(58.3)	379.5	(218.0)	(51.7)	(1,226.6)	(3.8)
Interest Paid	(72.0)	(223.1)	(438.9)	(749.4)	(495.1)	(595.2)	(595.7)
Dividend Paid	0.0	0.0	0.0	(276.7)	(214.7)	(572.6)	(572.6)
CF - Financing Activities	(517.4)	(644.6)	1,003.5	(528.4)	(761.5)	(2,394.5)	(1,172.2)
Net Change in Cash	119.8	(104.3)	2,027.3	2,188.1	(316.8)	(612.4)	(2,792.0)
Closing Cash & Bank Balance	226.2	121.9	2,149.2	4,337.2	4,020.4	3,408.0	616.0

# Disclaimer

## Disclosure of Interest Statement

1. Analyst Ownership of the scrip
2. PPFAS ownership of the scrip
3. PMS ownership of the scrip

JK Lakshmi Cement Limited

YES  
NO  
NO

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