

On Solid Ground

JK Lakshmi Cement should benefit from strong cement demand in rural areas and infrastructure development



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MID-CAP players in the cement sector are again in the limelight, given the strong demand from rural housing and government-funded infrastructure projects. JK Lakshmi Cement, the flagship company of the Hari Shankar Singhania Group, is one such company, which is expected to benefit from the buoyant demand ahead of its capacity expansion plans. The stock is trading at a P/E of 3.1 times its trailing four quarter earnings, which is much lower compared to other mid-sized players like Binani Cement and Prism Cement.

Business: JK Lakshmi Cement caters to cement demand in the western and northern belt of the country from its facilities in Rajasthan and Gujarat. In the March 2009 quarter, it had ramped up capacity to 4.75 million tonnes from 3.65 million tonnes a year ago.

The company incurred a capital expenditure of around Rs 230 crore for the expansion, which was funded through the combination of internal accruals and debt.

Higher production capacity was reflected in the company's cement sales in the March 2009 quarter that grew 18.2% to 11.64 lakh tonnes from year-ago levels. Volumes had grown at a slower pace of 7.35% during the first nine months of FY09.

Capex plan: JK Lakshmi Cement is setting up a 2.7 million tonne cement facility at Durg, Chattisgarh. The project, worth about Rs 1,100 crore, is supposed to be commissioned during 2011-12. In addition, the company is setting up a waste heat recovery system, which will generate 12 MW of captive power. It is expected to come online in 2011, at a cost of Rs 125 crore.

The company will finance these expansions through internal accruals and bank loans. The management is confident that their leverage ratio will not rise in the medium term, given the strong cash flows. For FY09, the company's cash profit was at Rs 247.7 crore.

Industry outlook: JK Lakshmi Cement is expanding its capacity at a time when the cement industry

is expected to add 25 million tonnes in FY10 and 30 million tonnes in FY11, as per estimates. The cement industry's capacity at the end of FY09 was at 217.8 million tonnes. In the same year, cement despatches grew 8% year-on-year to 181 million tonnes, while exports were at 3.2 million tonnes.

The additional capacity coming on stream in FY10 could result in the industry's utilisation levels falling from 88% in FY09 to 85% in FY10.

However, with a likelihood of a fresh impetus to infrastructure and housing sector in the forthcoming budget, utilisation levels may improve. In the cement industry, manufacturers typically hike prices, when capacity utilisation exceeds 85-86%.

Financials: The company's net cash from operating activities was at Rs 382.57 crore during FY08, while

CONCRETE GROWTH

Financials of JK Lakshmi Cement

	Mar '09 quarter	Trailing 4 qtrs ended Mar '09	YoY Chg (%)
Net Sales	364.55	1224.67	10.4
Power, Oil & Fuel	72.82	306.3	24.6
Selling & Admin Expenses	56.35	202.2	10.2
Operating Profit	112.1	310.7	-11.9
Depreciation	14.13	69.1	18.1
PAT	104.08	225.7	-16.6
OPM (%)	30.7	25.4	-640 bps

Source: Capitaline (Rs Crore)

its cash profit (net profit plus depreciation) was at Rs 282.2 crore. Its cash flows helped bring down the company's debt-equity ratio to 1.4 at the end of FY08, as compared to 2.5 in the previous year.

During the March 2009 quarter, JK Lakshmi Cement grew its operating margin by 70 basis points to 30.8% over the year-ago level. This was on account of a 5.9% growth in its per-tonne realisations, coupled with 18.2% growth in cement volumes. Net sales during the quarter grew 24.6% to Rs 364.5 crore while net profit rose by 54% to Rs 104.1 crore.

Valuations: At the current price of Rs 91.75, JK Lakshmi Cement is trading at an earnings multiple of 3.1. Given the company's future expansion and likelihood of demand buoyancy, investors with a horizon of at least two years can consider the stock. amrit.mathur@timesgroup.com