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MID-CAP *Mantra*

Cost Efficiency Puts JK Lakshmi Cement on Solid Ground

Use of low-cost pet coke shields company from uncertainty over coal availability

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Among the mid-sized cement companies, JK Lakshmi Cement has distinguished itself as one of the most cost-efficient. Its power consumption, for example, is much lower at 73 Kwhr per tonne than the industry average of 90-95 Kwhr per tonne. Besides, the company has increased its dependence on low-cost pet coke, which shields it from uncertainty involved in coal availability. As a result, in the past three years, the company's cost of cement production – EBITDA per tonne – has declined 18% to ₹537 in 2013-14 from ₹656 in the previous fiscal. This is commendable, given that demand for cement has been weak across the country during this period.

There are quite a few factors that have worked for the Delhi-based company. "In the last five years, our company has stuck to key things which have helped us achieve cost efficiency. The most important thing we have observed is cautiously increasing our presence in rural areas in Rajasthan, Gujarat, and Haryana," said Shailendra Chouksey, whole-time director of JK Lakshmi Cement. "Besides, we have carefully embarked on our capacity expansion. And as we expand to meet any eventuality or volatility, we put aside a healthy cash flow of close to ₹500 crore."

That these measures paid off is evident in the company's financial performance. In the last three years, the company's net profit and net sales have grown at a compounded annual growth rate of 16% to ₹92.78 crore while its net sales have also grown at a CAGR of 16% during the period to ₹2,056 crore.

JK Lakshmi Cement derives 35% of revenues from the northern region, 34% from Gujarat, 23% from Rajasthan and the remaining 8% from Maharashtra. So the company has nearly 60% exposure to the northern region while the remaining 40% of its capacity is exposed to the western part of the country.

In the next two years, the company plans to ramp up its cement capacity to 12 MT from 6.6 MT at the end of 2013-14. This expansion will come on the back of internal accruals and a portion of it will be funded by debt. The company has a power purchase tie-up with VS Lignite for 21MW power for the next 20 years at ₹3.2 per unit along with its capacity of 66MW. Hence, even post-expansion, the company's debt to equity ratio will be a little above 1 from 0.97 at present. This is manageable for a cement company which is in an expansion phase.

Analysts foresee an improvement in cement demand in the first half of 2015-16. In north and western regions, revival in cement demand is expected to be sooner as demand has kept pace with supply unlike in the other regions. Being a strong player in these regions, JK Lakshmi is expected to gain from any revival in demand. Chouksey said, "At present, there are about ₹4 lakh crore worth of infrastructure projects which are stuck for want of clearances. If these projects are cleared, there will be a huge spurt in cement demand, which will be sufficient enough to boost revenues of cement companies across regions."

Inflection Point

(₹ crore)

P/E	FY14	FY15E
Target P/E	23.8	18.2
EV/EBITDA	28.5	21.8
EV/Tonne($)	10.9	8.8
P/BV	82.0	59.0
RoNW (%)	1.7	1.5
RoCE (%)	7.1	8.3

Source: ICICI Securities

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