Financial Express
JK Lakshni plans Rs 1,400-cr capex
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JK Lakshmi plans ₹1,400-cr capex

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Mumbai, Apr 13: JK Lakshmi Cement (JKLC), which derives more than 50% of its revenues from the northern region, has chalked out a capex of about ₹1,400 crore to be spent over a period of two years in increasing its capacity from 4.7 million tonnes to 8 million tonnes by FY2013. The company had revenues of ₹1,491 crore in FY2009-10.

Shailendra Chouksey, CFO of the company, told FE, "In FY2011, we spent about Rs 350 crore capex and going ahead, over the next two years, (FY2012 and 2013) we plan to spend ₹700 crore each on our cement capacity expansion. The money will be spent in our grinding unit in Haryana, greenfield plant in Durg (Chattisgarh) and enhancing clinkerisation capacity at our kilns."

The company's 0.55 million tonnes of split grinding unit in Jhajhar district of Haryana is expected to be completed in the current year, thereby increasing its capacity to 5.3 million tonnes.

The company also expects its 2.7 million tonnes Durg capacity to come on stream in FY2013, which will take its total capacity to 8 million tonnes. Witnessing 20% increase in its ready mix concrete (RMC) business in FY2011, JKLC plans to revive plans to expand its RMC business. "We will spend about ₹100 crore in RMC expansion, which we had deferred. This amount will be spent over a period of three years," said Chouksey.

According to an Angel Broking report, JKLC's debt as on December 2010 stood at ₹1,050 crore with cash and liquid investments of ₹560 crore. Experts believe that the company's balance sheet is well placed, with net debt/equity of 0.35x, which would enable smooth execution of its expansion plans.

However, despite expansions lined up, JKLC is worried about rising input cost and pricing pressure which is denting its operating margins. Chouksey said, "Our operating margins (OPM) have fallen considerably in the current year compared to last year. In the nine months of FY2011, our OPM stood at 12% compared to 31% in FY2010. Going ahead, if the cement prices do not increase in tandem with rising input costs, our margins are likely to take a further hit," he said.

For 3QFY2011, JKLC posted a substantial 1,732 basis points y-o-y decline in operating margin to 7.9% due to the fall in realisations and a steep 66% y-o-y increase in per tonne power and fuel costs. In 3QFY2011, JKLC's per tonne cement realisations declined by 3.5% y-o-y. Dispatches during the quarter also fell by 7.5% y-o-y, as demand failed to pick up in the company's primary markets in the northern and western regions.

Chouksey said the company would raise the funds required for the capex through a combination of equity and debt.

He added, "The cement demand last year has been below expectation, with just 4.6% demand growth reported for the 11 months in FY2011. The fall in the demand growth at a time when the capacity has grown has really put pressure on prices."