

Low Priced Scrip



HERE IS WHY

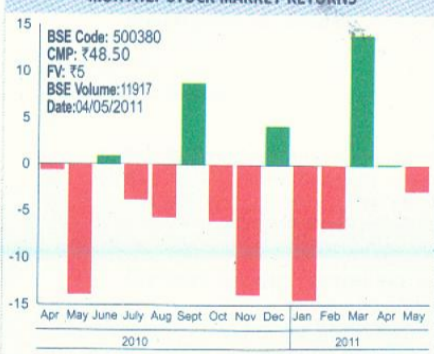
- At an EV/Tonne of USD 40.78 it is probably the cheapest cement stock available today.
- JKLC is a cash-rich company and has cash and liquid investments to the tune of ₹655.47 crore as of September 2010 on its balance-sheet.

BEST OF LAST ONE YEAR

Company Name	Reco.	CMP (₹)	Gain %
UCO Bank	70.35	98.00	39.30
Asahi Songwon Colors	60.25	73.00	21.16
Ind-swift Laboratories	79.90	94.00	17.65
Menon Bearings	40.50	47.00	16.05
Himalya International	20.00	23.00	15.00
Indag Rubber	91.00	103.00	13.19
Amar Remedies	87.00	95.00	9.20
United Bank Of India	94.00	96.00	2.13
Dujodwala Products	43.00	43.00	0.00
Samkrp Pistons & Rings	78.65	78.00	-0.83

CMP as on May 4, 2011

MONTHLY STOCK MARKET RETURNS



JK Lakshmi Cement

A Good Contrarian Pick

Would you buy a company whose revenues and profits have declined sharply in 9MFY11 with the fourth quarter results still awaited? The answer probably would be, 'No'. But what if we convince you that this same company on a contrarian view is a best buy with the worst already priced in? We are talking about JK Lakshmi Cement (JKLC), whose scrip is not only down by 26 per cent from its November 2010 peak, but, at an EV/Tonne of USD 40.78, is probably the cheapest cement stock available today, thus making ample sense to grab it at current levels of ₹48.50.

Part of the H S Singhanian group, JK Lakshmi Cement is a Rajasthan-based company. With a cement production capacity of about 4.7MTPA at the end of FY10, JKLC caters to the northern and western regions of India. However, FY11 has been a tough year for JKLC as falling realisations, rising costs and rising sector capacities took a toll on its revenues and profits, which declined by 13 per cent to ₹905.08 crore (₹1049.58 crore) and by 84 per cent to ₹27.17 crore (₹171 crore), respectively, during this period. But despite all this there are reasons why this scrip would do well.

Firstly, JKLC has undertaken a massive capacity expansion, wherein its cement capacity would go up by 70 per cent by FY13 from the current 4.7MTPA. This has already begun with a 0.55MTPA grinding unit in Haryana likely to go on stream soon. This will take JKLC's capacity to 5.30MTPA. Besides, JKLC is also ramping up its captive power capacity by 30MW and is also bringing an additional 21MW at rates substantially lower than the Jaipur Vidyut Vitaran Nigam. This would take its total power capacity to 87MW, the full benefits of which would be available from FY12 onwards. The company has already spent about ₹350 crore on capex in FY11. That apart, JKLC is also spending another ₹1400 crore (to be funded through debt and equity) over FY12 and FY13 to increase its capacity further by putting up a 2.7MTPA greenfield plant at Durg Chattisgarh. Once commissioned, this could take JKLC's revenues to a different trajectory. Besides, the company is also focusing on the infrastructure sector and the semi-urban and rural markets will give a further push to its revenues. Secondly, JKLC is a cash-rich company and has cash and liquid investments to the tune of ₹655.47 crore as of September 2010 on its balance-sheet, which is more than the market cap of the company and results in a cash per share of ₹53.66. This could be put to good use should the need arise.

Last but not the least, JKLC is very attractive from a valuation perspective wherein at a capacity of 5.3MTPA, the EV/Tonne comes to just ₹1806.58 or USD 40.78, a discount of 65 per cent to the replacement cost, thus making it one of the cheapest stocks in the cement pack. Even if we consider the fully expanded capacity of eight MTPA, then the EV/Tonne still comes at a 38 per cent discount to the replacement cost. Thus there is a good valuation gap that exists and it is about time the price caught up with its valuations. Hence one can buy this scrip with a one-year target of ₹68.

SHARE HOLDING PATTERN AS ON MARCH 31, 2011

Indian Promoters	44.19
Mutual Funds and UTI	4.15
Banks Fin. Inst. and Insurance	10.9
FII's	4.27
Private Corporate Bodies	8.16
NRI's/OCB's/Foreign Others	2.96
GDR/ADR/Govt/Others	0.86
General Public	24.5
GRAND TOTAL	100

LAST FIVE QUARTERS (₹/CR)

	Dec '10	Sep '10	Jun '10	Mar '10	Dec '09
Sales	315.40	266.03	323.65	441.32	353.31
Other Income	9.27	6.15	1.79	1.51	1.32
Operating Profit	24.85	27.72	56.32	102.33	89.02
Interest	12.63	11.25	12.03	10.66	4.88
Net Profit / Loss	4.60	5.76	16.81	70.12	45.35
EPS (in ₹)	0.38	0.47	1.37	5.73	3.71

(The analyst does not hold any shares in the company. Wish to comment on this article? Send your feedback to comment@dsij.in)