

Concrete prospects

The company's capacity expansion plans and its established client network hold promise.

BUY

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The stock of JK Lakshmi Cements looks an attractive buy in the mid-cap cement space at the current price of Rs 98. The stock trades at just three times its trailing four quarter earnings when some of its peers are at over six times (Prism Cements' PE six times, Binani Cement's PE eleven times and Dalmia Cement's PE seven times).

There is a promise of upside from the current level given the company's capacity expansion plans (a 2.7-million-tonne green-field plant) and its established client and dealer network. JK Lakshmi Cement is the flagship company of the JK group.

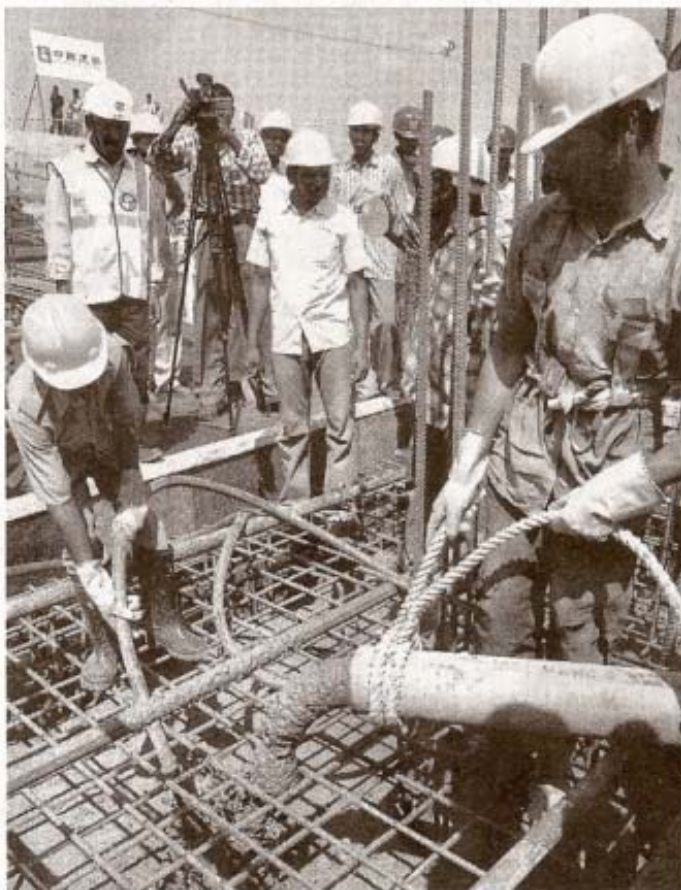
SECTOR OUTLOOK

Having commissioned its first unit in Sirohi, Rajasthan, in 1983, the company holds a 10 per cent market share in Rajasthan and Gujarat. The company's product mix includes blended cement, ready-mix-concrete (RMC) and plaster of paris.

Western and Northern India, the two regions served by the company, are expected to see good consumption growth on the back of the work for the Commonwealth games in Delhi and order inflows from government-funded projects in Maharashtra.

Further, the return of the UPA government at the Centre has given rise to hopes that the golden quadrilateral project under the National Highways

Development programme, which suffered setbacks in the period be-



The company's ready mix concrete business to benefit from improved cement offtake.

tween 2004 and 2008, will be expedited. Recent initiatives by the Cabinet Committee of Economic Affairs to allow highway developers to seek higher viability gap funding from the government may fasten the pace of completion of these projects and bolster cement demand. The RMC business may be a key beneficiary.

JK Lakshmi Cements is one of the few mid-sized players to have 11 RMC plants with a combined capacity of five lakh cubic metres; it has participated in the Indira Gandhi Nahar (IGN) and Golden Quadrilateral project. Demand should not be a concern for the company as it has an established client base, with leading infrastructure builders such as L&T, Delhi Airport Authority, Essar Refinery, Reliance, Hindustan Construction Company and Raj West Power (a subsidiary of JSW Energy)

among its clients. The brand is distributed by over 1,500 dealers across North and West India.

The company has recorded a strong 18 per cent growth in sales in the March quarter of 2009 supported by an equivalent volume growth and stable prices.

INVESTMENTS THAT WILL PAY-OFF

The past March quarter saw JK Lakshmi Cement's cement capacity expand 30 per cent through addition of a 0.55 million tonne grinding unit at Sirohi in Rajasthan and another 0.55 million tonne grinding unit at Kalol near Ahmedabad.

The company has begun acquiring land for its 2.7 million tonne (mt) green-field plant at Chattisgarh. The estimated outlay for this project is Rs 1,100 crore and is to be financed by a mix of debt and

internal accruals. The debt outstanding in the company's balance-sheet as on March 31, 2009 was Rs 700 crore and the debt-to-equity stands at a moderate 0.9.

To make cost savings, the company is setting up a 12 MW waste heat recovery plant at an outlay of Rs 125 crore. Till the December quarter end of 2008, 80 per cent of the company's power requirements were met by its captive thermal power plants (36 MW).

But with power needs going up following the 1.1 mt addition to capacity in the March quarter, the company has tied up with a private power company to meet the additional requirements. This power, the company claims, is sourced at a cost lower than sourcing from the grid.

The company has been switching between coal and high calorie pet coke for fuel over the past year based on relative price parity. In the current fiscal, after negotiating lower pet coke prices with the suppliers, the company hopes to make fuel cost savings

MARGINS HEAD-UP AFTER DECLINING

The company's operating profits for the recent March quarter was 31 per cent higher than the corresponding previous period. Increased volume, higher selling price and the savings in cost due to the fall in pet coke prices have aided margin expansion.

Operating profit margins for the quarter stood at 31.9 per cent, a 163 basis point expansion over the same quarter of the previous year.

However, for the full year FY-09, the company's operating margin has still contracted by 453 basis points to 25.8 per cent due to higher fuel prices (up 25 per cent) and employee expenses (up 24 per cent). Operating profit margins stood well above 30 per cent in the preceding two years.