Rating Rationale for J K Lakshmi Cement Ltd's Long Term Secured Non-Convertible Debentures Issue of INR 200 Crore or INR 2 billion with maturity of upto 10 years.

NCD Issue Rating: BWR AA	Outlook : Stable

Brickwork Ratings has assigned "BWR AA" (Pronounced BWR Double A) for J K Lakshmi Cement Ltd's (JKLC or "the Company") proposed long term Secured Non Convertible Debentures (NCD) issue of INR 200 Crore. Brickwork Ratings' 'BWR AA' stands for an instrument that is considered to offer High credit quality / safety in terms of timely servicing of principal and interest obligations.

The rating has, inter alia, factored JKLC's consistent growth, significant presence in the northern and western region which has seen higher demand and less price decline and the Management quality.

BWR has essentially relied upon the JKLC's audited financial performance up to the financial year ending March 2009, quarterly unaudited published results up to December 2009, projected financials, and information and clarification provided by the company.

Background

JK Lakshmi Cement Ltd is a renowned and well-established player in the Indian Cement Industry. It was established in 1982 and has over 25 years of experience in manufacturing quality cement, a key component for infrastructure development. The present capacity of JKLC stood at 4.75 million MT per annum which is being enhanced to 5.30 million MT per annum by setting up a split location Grinding Unit in Haryana.

The proceeds from the proposed NCD issue would be utilized towards augmentation of the long term resources of the Company.

Business Operations

J K Lakshmi Cement Ltd is a part of the J K Organization, one of the important industrial groups in India. It is one of the leading suppliers of cement in Northern India under the brand name "J K Lakshmi Cement" and has a wide network of 70 cement dumps and over 2200 dealers spread across the states of Rajasthan, Gujarat, Delhi, Haryana, U.P., Uttaranchal, Punjab, J&K, Mumbai & Pune. The company holds about 10 per cent market share in Rajasthan and Gujarat. JKLC's product mix also includes ready mix concrete (RMC) and plaster of Paris (POP) which are marketed under the brand names "JK Lakshmi Power Mix" and "JK Lakshmiplast" respectively. Currently there are 11 fully operational plants in the western and northern regions of the country for production of RMC.

The company has undertaken various initiatives such as revitalization of Kiln No. 1 and setting up of a Split Location Grinding Unit at Kalol, Gujarat which has taken the cement capacity to 4.75 million MT per annum in FY09 as compared to 3.65 million MT per annum in FY08. The present capacity of JKLC is being further enhanced to 5.30 million MT per annum by setting up a split location Grinding Unit in Haryana. To contain the cost of fuel due to steep rise in prices of various types of fuel, especially coal and petcoke, the company made strategic purchases as well as modified the fuel blend to include higher composition of petcoke and some percentage of bio-mass fuel. In addition, The Company's power requirement is partly met by a captive thermal power plant of generation capacity 36 MW, which resulted in saving in the cost of power and is being further enhanced to 66 MW.

JKLC is also the first cement production company in northern India to be ISO 9002 certified and has achieved capacity utilization of 104% (FY09), much higher than the industry trend of about 88%.

Ongoing Projects

The company has adopted expansion strategy that includes Greenfield projects and Brown fielding options that is expected to significantly boost future operations. Some of the projects undertaken by the company are as under:

- Augmenting clinker capacity from 3.63 million MT per annum (mtpa) as on March 31, 2009 to 3.96 mtpa. The Project is expected to be commissioned by January 2011.

- Setting up of a Waste Heat Recovery based power plant of 12 MW expected to be commissioned by March 2011 and another 18 MW thermal power plant expected to be commissioned by March 2011.

- Setting up of 0.55 mtpa split location grinding unit in Haryana. The Project is expected to be commissioned by March 2011.

- The Company is contemplating setting up another 9-10 RMC's in a phased manner till FY 14.

- The Company is setting up a Greenfield composite cement plant at Durg in Chattisgarh with capacity of 2.65 mtpa at a total estimated cost of Rs 1,200 Crore. The Project is expected to be commissioned by October 2012.

Management

The Board of JKLC consist of professionals with vast industry and management experience. It is headed by Mr. Hari Shankar Singhania, the President of the JK Organization. He is currently the Chairman of various companies including JK Industries Limited and JK Paper Limited. Mr. H.S Singhania has held key positions in various international organizations.

Mr. Bharat Hari Singhania is the Vice Chairman of the company and has over 46 years of experience in managing various industries including Cement, Automobile Tyres, Paper, Jute,

Synthetics etc. He has headed several industrial bodies such as President of Indian Chamber of Commerce, Chairman of Indian Jute Mills Association and has also served on various government committees.

Smt. Vinita Singhania is the Managing Director and has long experience of managing cement business. She is currently the President of Cement Manufacturers Association.

Financial Performance

JKLC's emphasis on cost reduction, niche marketing focus and completion of various expansion projects has enabled it to show consistent performance. The company's Gross sales reached Rs 1404 Crore for FY 09 as compared to Rs 1286 Crore in FY08, an increase of over 9%. Net Sales for FY09 stood at Rs 1225 Crore, a growth of about 11% over previous year figure of Rs 1108 Crore. PBITDA however declined to Rs 317 Crore in FY09 from Rs 358 Crore in FY08 due to increase in expenses incurred on raw material, power and fuel and transportation costs. The PAT for the year FY09 stood at Rs 179 Crore as against Rs 224 Crore in FY08. Total debt to equity ratio has declined from 1.12 in FY08 to 0.90 in FY09.

PBT for quarter ended December 09 stood at Rs 68 Crore as compared to Rs 56 Crore for the corresponding quarter last year. The net profit however stood at Rs 45 Crore for quarter ended December 09 from Rs 56 Crore in corresponding quarter of previous year on account of higher tax / deferred tax provision of Rs 22.36 Crore.

For nine month period ending Dec-2009, the Company has reported a Gross Sales of Rs. 1154 Crore a healthy growth of about 15.3% over the same period previous year on account of increase in production due to enhanced capacities increase in demand and on account of reduction in power & fuel costs and other overheads. Operating Profit of the company during the nine month period ended Dec-2009 grew by 62% to Rs 323 Crore. PAT also increased from Rs 122 Crore for nine month period ended December-08 to Rs 171 Crore for the same period ended December-09, a growth of about 41%.

Abridged balance sheet, P&L, Key financial ratios for the period FY07 - FY09 and the performance for quarter ended 31st December 2009 have been given in Annexure I, II, III and IV respectively.

Industry Outlook

The growth of cement industry is associated with growth in other infrastructure activities such as real estate, roads, highways, power plants, hydel projects etc. Due to economic slowdown, the growth rate of cement industry declined to almost 8% in FY09 as compared to double digit growth recorded in previous years. In the first six months of current financial year, the industry has shown signs of recouping and grown at almost 12%. The construction activity is picking up in various segments like housing, industrial and other infrastructure projects.

The pricing pressure however still remains for the cement industry. Cement prices have continued to fall mainly due to huge capacity addition of 21 million tonnes during Apr-Sep.

Additional 60 million tonnes of new capacity by the end of this financial year could keep the prices down. Input costs of the cement industry have risen much higher due to rise in prices of coal and petcoke. Exports have been hit after the recent financial crash in Dubai which has affected construction activity there. Demand however is expected to go up due to thrust on infrastructure activities and real estate sector which will help cement industry to sustain higher growth rates in future.

Rating Outlook

JKLC is an established player in cement industry especially in the northern region that has witnessed significant increase in infrastructure activities. The company has shown ability to adapt to changing environment conditions by taking strategic decisions in reducing costs, marketing focus and Greenfield/ Brownfield expansion plans. The company is well positioned to leverage on increasing demand for cement while adopting strategies that will enable it to see through challenges in the industry.

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Key Financials for JKLC

Annexure I: Abridged Balance Sheet

S. No	Particulars (in Rs. Crore)	2008-09	2007-08	2006-07
A	**Sources of Funds**			
1	Share Capital	61	61	57
2	Equity Share Entitlement Warrants	-	-	4
3	Reserves & Surplus	723	573	332
4	Revaluation Reserves	47	8	21
5	**Net Worth (1 + 2 + 3)**	**785**	**635**	**393**
6	Loans			
6.1	Secured Loans	574	596	641
6.2	Unsecured Loans	129	112	88
6.3	**Total Loans (6.1 + 6.2)**	**703**	**708**	**730**
7	Deferred Tax Liability	35	-	-
8	**Total Sources of Funds**	**1,569**	**1,350**	**1,143**
B	**Application of Funds**			
1	Gross Block	1,857	1,575	1,417
2	Depreciation	747	663	595
3	**Net Block (1 - 2)**	**1,110**	**912**	**822**
4	Investments	89	13	58
5	Deferred Tax Assets	-	12	38
6	**Current Assets, Loans & Advances**			
6.1	Inventories	66	62	56
6.2	Sundry Debtors	23	19	18
6.3	Cash & Bank Balance	327	348	151
6.4	Loans & Advances	216	162	118
6.5	**Sub Total (6.1 to 6.4)**	**632**	**590**	**342**
7	Less: Current Liabilities	262	177	117
8	**Net Current Assets (6.5 - 7)**	**370**	**413**	**225**
9	**Total Application of Funds**	**1,569**	**1,350**	**1,143**

Annexure II: Abridged Profit and Loss

S. No	Particulars (in Rs. Crore)	2008-09	2007-08	2006-07
1	Gross Sales	1,404	1,286	971
2	Less: Excise Duty	180	179	127
3	**Net Sales (1 - 2)**	**1,225**	**1,108**	**844**
4	**Expenditure of which:**			
4.1	Consumption of Raw Material	164	123	90
4.2	Power & Fuel	306	246	219
4.3	Employee Cost	69	56	35
4.4	Transport, Clearing & Forwarding	202	184	127
4.5	Stores & Spares	89	68	59
4.6	Others	78	79	67
4.7	**Total Expenditure**	**908**	**756**	**597**
5	PBIDT	317	358	259
6	Cost of Borrowings	21	28	36
7	PBDT	296	330	223
8	Depreciation	69	59	44
9	PBT	227	272	179
10	Taxes	48	27	1
11	**PAT**	**179**	**224**	**178**

Note: PAT for 2007-08 is after exceptional item of Rs. 21 Crore

Annexure III: Ratio Analysis

S. No	Particulars	2008-09	2007-08	2006-07
1	Debt - Equity Ratio (Times)	0.90	1.12	1.86
2	Interest Coverage Ratio (Times)	6.40	6.63	5.91
3	DSCR (Times)	1.97	2.47	2.54
4	Net Worth (Rs. Crore)	785	635	393
5	Profitability Margin (%)	15%	20%	21%
6	ROCE (%)	20%	26%	22%
7	Net Cash Accruals to total Debt (%)	31%	37%	30%
8	Current Ratio (Times)	2.41	3.33	2.93

Annexure IV: Performance for quarter ended 31st December 2009

S. No	Particulars (in Rs. Crore)	Quarter ended		Nine Months ended	
		31.12.2009	31.12.2008	31.12.2009	31.12.2008
1	Gross Sales	390	344	1,154	1,001
2	Less: Excise Duty	37	47	105	141
3	**Net Sales**	**353**	**297**	**1,049**	**860**
4	**Expenditure of which:**				
4.1	Consumption of Raw Material	50	41	153	120
4.2	Power & Fuel	77	72	210	233
4.3	Employee Cost	19	18	58	49
4.4	Transport, Clearing & Forwarding	69	48	184	146
4.5	Others	49	40	122	114
4.6	**Total Expenditure**	**264**	**219**	**727**	**662**
5	PBIDT	89	79	323	200
6	PBT	68	56	259	122
7	PAT	45	56	171	122