



JKLC plans to pursue growth aggressively by 2020

Vinita Singhania, vice-chairman & MD, (65), JK Lakshmi Cement Ltd (market cap: ₹5,342 crore) is not the archetypal corporate leader. Dressed in a traditional saree, seated in her rather spartan office, one of the top-rated corporate women in India gives the impression of a person very much at ease with herself. For a layperson, the relaxed demeanour totally eclipses her passion, determination and hunger for growth in a male-dominated industry.

It was a quirk of fate which led to a housewife, happily married for 16 years, donning the role of a corporate leader. The untimely death of her husband Sripathi Singhania in 1988

pushed Vinita, then a housewife, with a graduate degree from Delhi University, into the cement business. The support and encouragement of the late Hari Shankar Singhania, elder brother of Sripati Singhania saw Vinita take up the dream project of her husband in 1989. "He was a fatherly figure in the family and used to explain that, in business, you have to manage a budget worth crores of rupees, which is similar to the way you manage your household budget, which amounts to a few lakh rupees. It was his conviction that inspired me to make a meaningful contribution!" says Vinita Singhania.

A tight rein on costs and good

project implementation skills has been the hallmark of all the group companies, part of JK Organisation having their office in New Delhi – be they JK Tyres, JK Paper, Fenner India, Umang Dairy, JK Agri Genetics (a seed company) or JKLC. The high family bonding within this group and an informal division of the group's assets has also helped. After the demise of Hari Shankar Singhania in 2015, Bharat Hari Singhania has been designated as the CMD of JKLC.

The company is part of a business house, with a history of over 100 years, and once ranked amongst the Top Five business groups in India. The informal learning, gleaned from the daily talks at the breakfast table about the trials and tribulations of setting

up a 0.5 million tonnes cement project, then a big unit, in Sirohi, a remote area in Rajasthan, had given Vinita Singhania some ideas about the difficulties faced during commissioning of the project. In an area occupied by the scheduled tribes of Garasias who, in the early 1980s, used bows and arrows, setting up a plant in the then, MRTP regime was a big challenge, reminisces Vinita. While the plant was set up in 1982, there were teething problems, which took some time to resolve. "The team was good and took me seriously, thereby putting me at ease," she acknowledges. Some of the key members of the team, such as Shailendra Chouksey, S.K. Wali (both full-time directors) and Sudhir Bidkar (CFO), have been with the company for decades and have helped to grow the company to the current stature, she adds.



Wali: focus on cost and technology

A firm mind

Sitting through workshops and seminars and sifting through official papers allowed Vinita to gradually come to terms with the business. Plant visits was regularly undertaken once a month. Singhania confesses that use of diagrams to simplify complex issues helped. And, in between raising her two sons, Anshuman and Shrivats, who are now with JK Tyres and JK Papers respectively, Singhania also started her life as a corporate lady. "I firmly believe that women have an eye for details and can sometime

offer better solutions," she says. "They are also better at building and nurturing relationships."

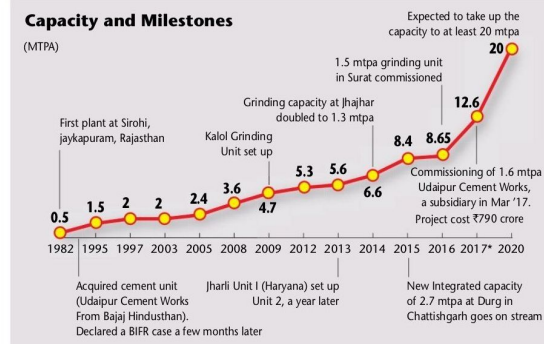
"She is a lady with a firm mind," observes Narottam Sekhseria, chairman, ACC. "Transparent in her dealings, she has retained good people and done well". Sekhseria, who had built Gujarat Ambuja Cement, before selling it to Holcim, had persuaded Vinita Singhania to take charge as president, Cement Manufacturers Association, and also nominated her when he stepped down in 2009. Singhania remains the first and, till date,

the only lady president of CMA. She held the post during 2009-12 and had frequent dialogues with the finance minister at that time.

Singhania's real recognition within the industry came when she started aggressively pursuing growth, once the MRTP Act was dismantled in the 90's. Today, the company has grown from a single location, 0.5 million tpa cement capacity, to a multi-locational cement company, with a total capacity of nearly 12 million tpa, spread across Rajasthan and Chattisgarh with grinding units in Gujarat, Haryana and Odisha. (see graph). Sirohi (in southern Rajasthan), however, remains the single largest integrated cement plant with a capacity of 4.6 million tonnes. The market has also recognised the growth story and JKLC enjoys the highest market cap amongst the companies in the group (see box).

An integrated plant at Durg in Chattisgarh, with a capacity of 2.70 million tones, marked its first foray in the East. To capture the adjacent lucrative markets near the integrated plants grinding units have been put in nearby states.

"Initially we were taking small steps at a time, to ensure profitable growth," says S.K. Wali. A chemical engineer, who has studied business



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management in Blue Circle, UK; IIM Ahmedabad; and Wharton, Wali has an experience of over 41 years in the cement industry, having earlier worked for the Sahu-Jain group and was involved in setting up a cement plant for the government of Bhutan. Joining as an engineer in 1980, Wali has been involved in the operations of all the projects at JKLC. "Using technology and innovations, based on in-house skills of the engineers, JKLC today is amongst the lowest-cost producers of cement in the industry," says Wali. Continuous R&D and focus on improving efficiencies (even before the term *Juggad*, became popular, says Wali), has seen JKLC's consumption of power, a critical raw material in cement, going down to 75 kWh for a tonne of cement – comparable with Shree Cement but lower than Ambuja and ACC (which stands at 80 kWh). Ultra Tech records 79 kWh, while JK Cement uses 84 kWh. The company has also installed its own captive power plants, based on both thermal and alternative modes of energy like solar and wind. At Sirohi, JKLC has a total power generating capacity of 68 MW, of which 14 MW is through waste heat recovery. The company is currently setting up a 7 MW waste heat recovery plant and a 20 MW thermal power plant in Durg. Fuel consumption is also low, says Wali, adding that full freedom given to engineers has helped in building in-house capabilities to tackle problems in remote sites. The total strength of the company stands at 1,800 employees today.



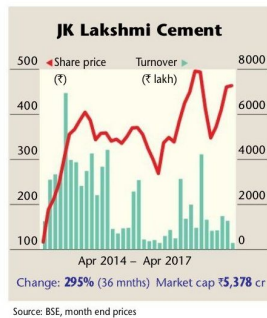
Chouksey: consolidation will happen

JKLC has gone for the production of value-added products like concrete bricks, which allow fast and economic construction to be undertaken, gypsum-based plaster for hand application, plaster of Paris and ready mix concrete. With a view to build customer connect, it has set up a technical service cell, to provide construction solutions and on-site assistance.

returns have been good – amounting to 266 per cent over the last three year period and 35 per cent over the last one year, which outperforms the Sensex returns. A buy-back of shares at ₹70 in 2012 saw less than 50 per cent shares being offered.

The company has, by and large, pursued an organic growth policy till date. Its only takeover was the 1.6 million tpa Udaipur Cement Works from Bajaj Hindusthan in 1993, which later became a stretcher case later. However, through infusion of capital and loans from the banks to the tune of ₹525 crore, the company has been modernised and is now nursed back onto the growth path. At a project cost of ₹790 crore, JKLC has been able to get JK Udaipur Cement out of the ambit of the BIFR and commissioned the plant, post-modernisation and rehabilitation on 31 March 2017.

The company, which has a railway siding, is expected to attain full capacity in the current calendar year. With land and limestone quarries in place and the environmental clearance in hand, the investment cost for this unit works out to \$74 (₹4,938) per tonne, as against the expected cost of \$120 a tonne for setting up a new greenfield plant. The sales tax benefit of 50 per cent and the accumulated tax losses of ₹100 crore will be the added benefit for JKLC, which has not as yet decided to merge the unit with itself or dilute their stake at a later date. Besides cement, the company, situated in the bustling city of Udaipur, also has surplus land, which can be developed. The option to shift the plant to a new site and

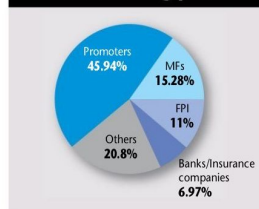


Good returns

Each cement company has its own marketing technique. Shree Cement's Red Oxide is one such product. Gujarat Ambuja has made strength as its differentiator. JKLC has likewise come up with green-coloured packaging of cement bags. It has also branded its cement, like JK Lakshmi Platinum cement, in the premium category.

While the company, like others in the cyclical cement industry, has had its fair share of ups and downs, it has been generating good returns for its shareholders. The total returns have been 824 per cent over a 10 year period. Even in the short term, the

Shareholding pattern



Mutual Funds includes Franklin Templeton, Kotak, UTI)
FPIs include Goldman Sachs, Adhika, Govt. Global Pension Fund)
Insurance includes LIC and HDFC Standard)

fully exploit the soaring land value is also an option to be considered at a later date.

Except for this acquisition, the company has been pursuing brownfield and greenfield projects all along. The philosophy of JKLC, like the other companies in the group, is conservative – and keeps a close eye on cost against returns and growth, for expanding the market share at all costs.

Aggressive growth

Debt is the preferred mode of expansion followed by JKLC and not equity. Greenfield and brownfield expansions have been funded through own funds. The total outstanding debt of JKLC is ₹1,918 crore. The long-term instruments enjoy a rating of AA, while the short term is A1+, the highest possible rating. Its net debt: Equity ratio is 1:25.

Because of its aggressive growth policy, its EPS in 2015-16 was ₹0.53, as against ₹8.12 in 2014-15, largely due to the higher depreciation and interest charges incurred on its Chattishgarh unit in Durg, which went on stream in March 2016. It has also commenced work on its split grinding unit in Cuttack.

This year is expected to be better for JKLC. Emkay Global, in its research report on the company in December 2016, had commented that the real benefit of the Durg unit will be felt once the grinding unit goes on stream. On a stand-alone basis, the company has reported an EPS of ₹5.21 on a face value of ₹5 during the first nine months of 2016-17. However, the investment in Udaipur Cement plant, as also the grinding unit in Surat, will get reflected in this year's financials.

Demonetisation and its impact, especially on the cement prices in Gujarat, will also dent profits. However, with cement being largely a volume play, the enhancement of capacities in JKLC and Udaipur Cement will improve the company's overall performance.

With greenfield



Bidkar: open to takeover

projects for cement becoming more difficult, thanks to the procedural delays and higher costs of rehabilitation of people on sites, brownfield expansion or takeovers are increasingly becoming more attractive. If JKLC really wishes to become a pan-India player, it will have to pursue an M&A mode, to hasten the pace. "We are open to acquisitions, if it makes a strategic fit and is available at a right price," says Sudhir Bidkar, another career professional at

JKLC. "However, as of now, we would like to consolidate first, having grown rapidly in the last five years", he adds.

The group had looked keenly at a couple of companies, including Reliance Cement of the ADAG group and Lafarge cement units. But, it backed off due to aggressive bidding by others, including Nirma and Birla Corp. Piling up too much debt too fast can also be disastrous in a cyclical industry, as Jaiprakash group found out. Once considered a contender to be within the Top Three slots, it had to, in a bid to pare debt, sell out its cement capacities.

Despite having plants at remote capacities, the company has managed to retain its staff. "We do not over-pay!" says Bidkar half in jest; "but give them ample opportunities to grow within the company, as also in the group. As a part of the CSR activities, schools have been built and, once the children pass out, we give the employees an opportunity to relocate to enable their children to undertake higher studies.

"Consolidation in the cement industry is inevitable," says Shailendra Chouksey, a full-time director & current president, CMA. Chouksey who had been joint president, commercial, before, has been in the managing committee of CMA since 1991. He is considered an authority on cement like his peer Wali (both in their mid-60s). Explaining that cement is a capital-intensive industry, setting up a greenfield plant is becoming increasingly unviable and takes 7-10 years to set up. Pointing out that cement is not an industry for the weak-hearted, Chouksey forecasts that existing players like JKLC will continue to grow in the coming years.

It is for this reason that practically no new player has come into this industry of late. Save for ABG Shipyard in South Gujarat, Wonder Cement of R K group, in Rajasthan and Emami, not many have ventured in this field. JSW, which plans to utilise its slag from its steel fields, is planning to set up a greenfield venture by

JK Lakshmi Cement Financials

2017 Q ended	Dec	Sept	June	March	FY16
(₹ crore)					
Total Income	766	751	788	769	2,680
Interest	-49	-47	-46	-50	-192
Net Profit	8	25	29	48	6
Equity	59	59	59	59	59
EPS (₹)	0.65	2.12	2.44	4.11	0.53
CEPS (₹)	4.41	5.62	5.93	7.52	14.37
OPM (%)	13.03	15.22	16.46	16.34	12.2
NPM (%)	1.01	3.4	3.68	6.58	0.24

Source: BSE

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Sirohi: JKLC's largest and biggest complex

Attitudinal change

In October 2011, the total market cap of the listed entities in the Singhania group (Delhi), including JK Tyres, JK Lakshmi Cement, JK Paper, Umang Dairy and JK Agri Genetics, was about ₹1,500 crore (see Business India, dated 30 October 2011). Six years later, the group's turnover has gone over ₹10,000 crore, with JK Lakshmi Cement's market cap being the highest at ₹5,342 crore. JK Tyres is over ₹3,000 crore, while JK Paper is at about ₹1,500 crore. It is true that the biggest companies in the group are in cyclical businesses and the market cap is a function of the perception held at a certain time in the cycle. Even so, one of the main contributing factors to the growth in the perception is the changing attitude of the group.

Earlier, the group's philosophy was to let the work speak for itself and, so, not much was written about the group. There was also a certain amount of confusion between JK Cement, belonging to the Kanpur family and JK Lakshmi Cement. Today, while the companies are still conservative, there is some clarity on the various family-controlled units in each group. Further, each company in the group has also embarked on an aggressive expansion drive and the management of each company is becoming more vocal. With genX also gradually preparing to take over the baton, one could possibly see a faster growth in the coming few years. To that extent, one can say that the transitional impact will start playing out in the coming years.

importing clinker. This model has yet to be tested.

Chouksey, however, admits that cement is a regional play and companies in specific sectors can still survive without having a pan-India presence. As a rule of thumb, he says the minimum economic size for cement companies should be 10 million tpa. In Chattisgarh, JKLC was able to capture 50-60 per cent market share after its unit went on stream. Having a multi-locational

presence with grinding units at strategic places, however, helps in shifting material from the low price areas to better paying areas where demand is higher. Prices are hovering at a low of ₹235-245 in Gujarat currently, while the prices in Punjab, UP, Haryana and Delhi are over ₹300 per bag of 50 kg. In the south, the prices range between ₹350-400, while it is less in Maharashtra and MP, ranging between ₹260-280. Such disparities in prices help pan-

How it stacks up

	(₹ crore)
JK Cement	6,442
JK Lakshmi	5,342
Birla Corp	5,790
OCL	5,655
Prism	5,223
India Cement	5,056

Mid-size cement companies, ranked by market cap

India players.

However, most analysts in the industry feel that the worst is over for the industry. The government's new initiatives like 'Housing for all' and 'Make in India', as also the thrust on accelerating investment demand, augurs well for the industry; and it's a feeling widely shared amongst cement companies, which have been increasing their capacities in anticipation. Vinita Singhania is also on the drawing board, with an aspiration of making JKLC, a 20-22 million tpa player by 2020. Going by her track record in taking the company from 0.5 million to 12 million tpa, this may be a doable target.

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