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Standing apart: Barak Valley Cements at P/E lower than smaller cement cos  
7 Sep 2009, 0533 hrs IST, Amriteshwar Mathur, ET Bureau

Barak Valley Cements, a mini cement company with operations in the north-eastern part of the country, enjoys one of the highest realisations per tonne basis given limited competition in its markets. No doubt the northeastern region has grappled with an uncertain operating environment, given rebel movements in various states and relative economic backwardness, but this region has also witnessed strong demand for cement over the past few years.

For instance, in the key Assam market alone, total cement consumption amounted to 1.65 million tonne in FY 09, as compared to 1.05 million tonne in FY 06. This has been primarily due to government-funded infrastructure and development projects, coupled with rural housing projects.

However, despite the growth in cement consumption in the region, analysts point to cement supply lagging demand although exact figures are difficult to get. As a result, a large part of the supply to the northeast comes from players outside the region.

Hence, for companies such as Barak Valley Cements, it provides growth opportunities over the medium term. Also, Barak Valley Cements, given its location, enjoys various fiscal and tax benefits, including excise duties exemption, income tax benefits and working capital interest subsidy.

**Capacity:**

The company's cement capacity at the end of FY 09 was 2.47 lakh tonne, expanded from 1,51,800 tonne in FY 07 at a cost of Rs 23 crore. Barak Valley's plant is located in Assam's Karimganj district and is well connected to the key consumption centers, including Guwahati, Shillong and Agartala.

In addition, in late FY 08, Barak Valley, through its subsidiary Badarpur Energy, had brought on stream, a 6 MW biomass-based power plant. This project was set up at a cost of nearly Rs 35 crore. These projects have been financed through an IPO of Rs 23.77 crore in October 07, coupled with internal accruals and loans.

Barak Valley Cements also enjoys synergies with regard to key raw materials for cement production, such as limestone and coal. In the case of limestone, its requirement is largely met from its subsidiary Meghalaya Minerals & Mines, whose operations are not too distant from its cement plant.

**Financials:**

Barak Valley Cements' standalone operating profit margin declined 900 basis points to 24 % during the June 09 quarter despite net sales that improved 24.1 % to Rs 28.7 crore. Pressure on its operating profit margins in the June 09 quarter was due to higher costs for power, oil & fuel, which was not offset by higher realisations.

The company's despatches amounted to 52,133 tonne in the first quarter of FY 10, a rise of 14 % and realisations grew an estimated 9.8 % to Rs 5,510 per tonne. For all-India player ACC, its realisations were estimated at Rs 3,840 per tonne during the June 09 quarter, a rise of 13 %.

**Valuations:**

At Rs 30, Barak Valley Cements trades at a P/E of 8.3 times which is lower than that of other mini cement companies like Sagar Cements and Shiva Cement. The stock could be a value buy for the long term.

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