

**Jaiprakash Associates Ltd**Rs707  
**OUTPERFORMER**

## RESULT NOTE

Mkt Cap: Rs154.1bn; US\$3.4bn

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**Result:** Q3FY07

**Comment:** Operating performance ahead of estimates led by higher cement realizations

**Last report:** 17 October 2006 (Price Rs480; Recommendation: Outperformer)

## Key consolidated valuation metrics

Year to March (Rs mn)	Sales	chg yoy (%)	Net Profit	EPS (Rs)	chg yoy (%)	PER (x)
2004	26,191	13	2,148	12.2	117	39.4
2005	31,881	22	2,800	15.9	30	30.2
2006	36,516	15	3,393	17.4	10	27.5
2007E	42,670	17	5,183	23.8	36	29.7
2008E	48,685	14	6,648	30.5	28	23.2

Jaiprakash Associates Ltd's (JAL) standalone net profit was higher than our estimates at Rs1.02bn (+79% yoy) led by a strong performance of the cement division. The cement revenues grew by 64% yoy (40% yoy realization growth), which led to a sharp jump in EBIT margins by 1870bps to 28.3% during the quarter. The construction business revenues fell by 16% as most of the projects were in the ramp up phase during the quarter (in line with our estimates). Despite a higher tax rate of 35.4%, the net profit grew at a strong pace of 79% yoy. The stock is trading at 28.9x FY08 standalone earnings and at 23.2x FY08E consolidated earnings, which is attractive considering the robust order backlog of Rs72bn for the construction business, firm cement prices across its key markets as well as huge land bank from the Jaypee Green and Taj Expressway project. We retain our Outperformer rating on the stock with an upgraded target price of Rs830/share based on sum of parts valuation.

**RESULT HIGHLIGHTS****□ Net revenues grew by 11.8% yoy to Rs8.91bn**

The cement volumes grew by 17% yoy to 1.71 million tons in 3QFY07 on the back of strong demand in the northern region especially Uttar Pradesh, a key market for JAL. The net realisations improved by 40% yoy Rs2,895/ton during the quarter led by sharp jump in cement prices in the northern region. As a result, cement revenues grew at a robust pace of 64% yoy to Rs4.95bn.

On the other hand, the construction revenues fell by 16% yoy to Rs4.3bn as new projects were in the ramp up phase, while the old projects were close to completion during the quarter. The construction order backlog is Rs72bn as on 31<sup>st</sup> December 2006.

Overall, net revenues grew by 11.8% yoy to Rs8.91bn during the quarter.

## Cement division performance

Cement	1QFY06	2QFY06	3QFY06	4QFY06	1QFY07	2QFY07	3QFY07
Volumes (mn tons)	1.44	1.24	1.47	1.78	1.57	1.52	1.71
Realisations (Rs/ton)	2,151	2,065	2,061	2,320	2,599	2,800	2,895
Cost (Rs/ton)	1,645	1,653	1,720	1,775	1,796	1,974	1,930
EBITDA (Rs/ton)	507	411	341	545	803	826	965
<b>yoy growth (%)</b>							
Volumes	23	15	16	17	9	23	17
Realisations	2	0	11	5	21	36	40
Cost per ton	(3)	(7)	14	(1)	9	19	12
EBITDA/ton	21	43	0	31	58	101	183

Source: Company, SSKI Research

### □ Operating margins improve by 490bps to 25.9%

Jaiprakash's overall operating margins improved sharply by 490bps to 25.9% during the quarter mainly due to sharp jump in cement EBIT margins by 1870 bps yoy to 28.3% led by strong realizations and cement volumes during the quarter.

On the other hand, construction division EBIT margins fell by 490bps yoy to 21.2% during the quarter led by lower revenues.

## Segmental performance

Segment Revenues (Rs m)	1QFY06	2QFY06	3QFY06	4QFY06	FY06	1QFY07	2QFY07	3QFY07
Cement	3,100	2,560	3020	4130	12,810	4,080	4,270	4,950
Construction	5,480	4,470	5130	4920	19,890	5,206	3,810	4,300
<b>% change yoy</b>								
Cement	25	15	30	23	23	32	67	64
Construction	6	7	10	10	7	-5	(15)	(16)

EBIT (Rs m)	1QFY06	2QFY06	3QFY06	4QFY06	FY06	1QFY07	2QFY07	3QFY07
Cement	520	300	290	760	1,880	1,050	1,140	1,400
Construction	1,300	1,200	1340	960	4,720	1,040	1,050	910
<b>EBIT Margins (%)</b>								
Cement	16.8	11.7	9.6	18.4	14.7	25.7	26.7	28.3
Construction	23.7	26.8	26.1	19.5	23.7	20.0	27.6	21.2

Source: Company

- Interest expenses increased by 4% yoy to Rs700mn during the quarter, while depreciation increased by 13% yoy to Rs430mn mainly due to commissioning of 38MW captive thermal power plant in 2Q FY07.
- Other income during the quarter grew by 43% yoy to Rs400mn led by higher surplus cash on books.
- The tax provision during the quarter was 35.4% vs 36.7% in 3QFY06.
- Consequently, the net profit witnessed a strong growth of 79% yoy at Rs1.02bn during the quarter.

### ❑ 400MW Vishnu Prayag power plant commissioned in October 2006

JAL has commissioned 4x 100MW (400MW) Vishnuprayag hydropower plant (BOT) at Uttranchal. The 4<sup>th</sup> module of 100MW was commissioned in October 2006. The project was completed at a cost of Rs19bn funded at a debt-to-equity of 70:30. Jaiprakash has signed a PPA with the Uttar Pradesh Power Corporation Limited (UPCCL) at a 16% RoE. However, the project is likely to have RoE of 18-24% on account of higher plant availability and secondary generation.

### ❑ JAL commissions 25MW wind power plant

JAL is setting up a 2x25MW (50MW) wind power plants at Dhule (Maharashtra). The project is likely to be completed at a cost of Rs2.4bn funded at a debt-to-equity of 70:30. The 1<sup>st</sup> plant of 25MW was commissioned during the quarter, while the 2<sup>nd</sup> plant is likely to be commissioned in by July 2007 (25MW). Post the commissioning of the power plants, JAL is likely to get tax breaks in form of accelerated depreciation, which will reduce the tax burden for the company.

### ❑ We maintain Outperformer rating

The strong order backlog of Rs72bn coupled with sharp rise in cement prices is likely to drive JAL's consolidated earnings by 33% CAGR over FY06-08. Jaiprakash is trading at 28.9x FY08 standalone earnings and at 23.2x FY08E on consolidated earnings. We have not factored in the dilution from the Euro160mn FCCB issue in the EPS estimates due to uncertainty on its timing of conversion. The stock is trading at attractive valuations considering its strong order backlog of Rs72bn, robust cement price outlook and the resulting strong earnings growth (+33% CAGR over FY06-08E). As a result, we maintain Outperformer rating on the stock with an upgraded sum of parts target price of Rs830/share.

#### Sum of parts valuation – Rs830/share

Rs mn	Valuation metric	FY08
Construction business	10x EV/EBITDA	32,783
Cement	US\$100/ton	52,325
Baspa II (JHPL)	Market Value	23,998
(% stake)		63
Baspa II (JHPL) (Pro rata stake value)		18,241
Vishnu Prayag (JPVL)	2.5x Book Value	27,567
(% stake)		84
Vishnu Prayag (JPVL) (Pro rata stake value)		23,156
Karcham Wangtoo (JKPL)	Rs10/share	24,000
(% stake)		100
Karcham Wangtoo (JKPL) (Pro rata stake value)		24,000
Acquisition of UPSCL	Book value	7,840
Acquisition of coal mines	Book value	2,500
Jaypee Green value	NPV of its cashflows	25,425
Taj expressway land	Land value – Rs70mn/acre	63,000
<b>Total EV</b>		<b>249,270</b>
Less: Consolidated Debt		68,228
<b>Target Market Capitalization</b>		<b>181,042</b>
No of share (m shares)		218
<b>Target price (Rs/share)</b>		<b>830</b>

## Quarterly results

Standalone (Rs mn)	Q1FY06	Q2FY06	Q3FY06	Q4FY06	FY06	Q1FY07	Q2FY07	Q3FY07	FY07E
<b>Net Sales</b>	<b>8,170</b>	<b>6,720</b>	<b>7,970</b>	<b>8,550</b>	<b>31,410</b>	<b>8,950</b>	<b>7,700</b>	<b>8,910</b>	<b>35,983</b>
Total Expenditure	6,620	5,330	6,300	7,010	25,230	6,820	5,720	6,600	27,088
<b>EBITDA</b>	<b>1,550</b>	<b>1,390</b>	<b>1,670</b>	<b>1,540</b>	<b>6,180</b>	<b>2,130</b>	<b>1,980</b>	<b>2,310</b>	<b>8,895</b>
OPM (%)	19.0	20.7	21.0	18.0	19.7	23.8	25.7	25.9	24.7
Other Income	430	660	280	540	1,730	250	380	400	1,600
Interest	650	610	670	580	2,370	590	620	700	2,627
Depreciation	370	370	380	380	1,500	380	390	430	1,648
<b>PBT</b>	<b>960</b>	<b>1,070</b>	<b>900</b>	<b>1,120</b>	<b>4,040</b>	<b>1,410</b>	<b>1,350</b>	<b>1,580</b>	<b>6,220</b>
Tax	121	210	330	420	1,081	490	450	560	2,146
Tax Rate	12.6	19.6	36.7	37.5	26.8	34.8	33.3	35.4	34.5
<b>Profit After Tax</b>	<b>839</b>	<b>860</b>	<b>570</b>	<b>700</b>	<b>2,959</b>	<b>920</b>	<b>900</b>	<b>1,020</b>	<b>4,074</b>
Extra-ordinary Items	3,301	-	-	-	3,311	-	-	-	-
<b>Reported PAT</b>	<b>4,140</b>	<b>860</b>	<b>570</b>	<b>700</b>	<b>6,270</b>	<b>920</b>	<b>900</b>	<b>1,020</b>	<b>4,074</b>
OPM (%)	19.0	20.7	21.0	18.0	19.7	23.8	25.7	25.9	24.7
NPM (%)	10.3	12.8	7.2	8.2	9.4	10.3	11.7	11.4	11.3
Other income/PBT	45	62	31	48	43	18	28	25	26
EPS (Rs)	4.8	4.8	3.1	3.7	15.6	4.8	4.2	4.7	21.3
Cash EPS (Rs)	6.9	7.0	5.2	5.7	23.4	7.4	7.3	7.9	31.3
PER (x)	37.1	36.7	56.6	48.0	45.4	36.8	42.6	37.8	33.3
P/CEPS (x)	5.6	5.5	7.4	6.7	4.9	5.2	5.2	4.8	3.7
<b>% yoy change</b>									
Revenues	10	8	20	13	13	10	15	12	15
PBT	19	56	29	-13	16	47	26	76	383
PAT	61	163	27	-28	31	10	5	79	321

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