Company Flash

20 May 2007 | 6 pages

Jaiprakash (JAIA.BO)

Buy: Cement Delivers, Construction Disappoints

- PAT ahead of estimates — JPA's 4QFY07 PAT at Rs1.3bn up 56% YoY was 15% ahead of CIR estimates of Rs1.1bn driven by 11.9% margin expansion on sales growth of 3% YoY. Income and cost items for 4QFY06 have been restated.
- Cement once again the key — Cement price realizations at Rs3186/tonne were up 41% YoY aiding the 164% YoY growth in cement PBIT. Cement dispatches have been strong at 1.89mn tonnes up 6% YoY further aiding the growth.
- Bad quarter for construction — Construction revenues were down 35% YoY. Further PBIT margins at 16% contracted 401bps. JPA has not won any construction order since the Srisailam project. Revenue growth in the next year is contingent on winning of new orders/JPA booking construction revenues on Jaypee Green or Taj Expressway EPC contract.
- We await clarity on — (1) Construction order backlog at the end of FY07 (2) Likely date/size/cost of land parcel that is likely to be handed over to JPA now that UP elections are over (3) Developmental plans for the Taj Expressway land (4) Would the Taj Expressway be built in-house or would it be subcontracted? (5) When would the company start booking revenues on Jaypee Greens?
- Maintain Buy (1L) — JPA is one of our top picks in the E&C space given the natural hedge of having both construction and cement businesses and a strong presence in real estate, hotels and ownership of power capacity in a power deficit nation.

Buy/Low Risk	1L
Price (18 May 07)	Rs671.05
Target price	Rs674.00
Expected share price return	0.4%
Expected dividend yield	0.4%
Expected total return	0.9%
Market Cap	Rs146,104M
	US$3,625M

Figure 1. JPA Statistical Abstract

Year to	Net Profit	FD EPS	EPS Growth	Cons. FD EPS	EPS Growth	P/E	Cons. P/E	EV / EBITDA	P/BV	ROE	ROCE
31-Mar	(Rsmn)	(Rs)	(%)	(x)	(%)	(x)	(x)	(x)	(x)	(%)	(%)
FY05A	2,076	10.66	10.7%	13.28	2.8%	62.9	50.5	26.7	9.7	18.2%	6.1%
FY06A	2,786	11.83	11.0%	13.78	3.7%	56.7	48.7	26.8	6.7	16.5%	5.7%
FY07E	3,822	16.23	37.2%	22.60	64.0%	41.3	29.7	20.2	5.9	16.6%	6.6%
FY08E	4,903	20.82	28.3%	27.19	20.3%	32.2	24.7	16.1	4.4	17.1%	7.7%
FY09E	7,141	30.33	45.7%	36.70	35.0%	22.1	18.3	11.4	3.2	18.3%	9.7%

Source: Citigroup Investment Research

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See Appendix A-1 for Analyst Certification and important disclosures.

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Figure 2. JPA 4QFY07 Results

Year End Mar31 (Rsmn)	4Q06	4QFY07	% YOY	4Q07E	
Sales	**8580**	**8860**	**3%**	**9392**	**9%**
Change in stock	(50)	(50)			
as % of sales	0.6%	0.6%			
Construction, manufacturing & hotel	(4930)	(3850)	-22%	(5119)	4%
as % of sales	57.5%	43.5%		54.5%	
Staff	(370)	(470)	27%	(470)	27%
as % of sales	4.3%	5.3%		5.0%	
Other	(1700)	(1860)	9%	(1597)	-6%
as % of sales	19.8%	21.0%		17.0%	
Total Expenditure	**(7050)**	**(6230)**	**-12%**	**(7185)**	**2%**
EBITDA	**1530**	**2630**	**72%**	**2207**	**44%**
EBITDA Margin	**17.8%**	**29.7%**	**11.9%**	**23.5%**	
Depreciation	(380)	(420)	11%	(430)	13%
EBIT	**1150**	**2210**	**92%**	**1777**	**54%**
EBIT Margin	**13.4%**	**24.9%**		**18.9%**	
Interest	(600)	(650)	8%	(680)	13%
Other Income	580	300	-48%	660	14%
PBT	**1130**	**1860**	**65%**	**1757**	**55%**
PBT Margin	**13.2%**	**21.0%**		**18.7%**	
Current Tax	(350)	(450)			
Deferred Tax	70	(90)			
FBT	(10)	(10)			
Total Tax	**(290)**	**(550)**	**90%**	**(615)**	**112%**
Tax Rate	25.7%	29.6%		35.0%	
PAT	**840**	**1310**	**56%**	**1142**	**36%**

Source: Citigroup Investment Research

Figure 3. JPA 4QFY07 Segmental Results

	4Q06	4QFY07	% YOY	4QFY07E
Revenues				
Cement	4030	6020	49%	5562
Contruction	5010	3260	-35%	4400
Hospitality & Golf Course	60	70	17%	30
Unallocated	180	80	-56%	200
Total	**9280**	**9430**	**2%**	**10192**
Less: Intersegment	(120)	(270)		(200)
Income from Ops	**9160**	**9160**		**9992**
PBIT				
Cement	800	2110	164%	1555
Contruction	1000	520	-48%	924
Hotel	0	20		0
Total	**1800**	**2650**	**47%**	**2479**
Interest	(600)	(650)		(680)
Unallocables	(70)	(140)		(40)
PBT	**1130**	**1860**	**65%**	**1759**
PBIT Margin				
Cement	19.9%	35.0%	1520	28.0%
Contruction	20.0%	16.0%	-401	21.0%

Source: Citigroup Investment Research

Jaiprakash

Company description

JPA is a conglomerate with interests in engineering and construction (hydel power, river valley & roads), cement, hydroelectric build-own-operate-transfer (BOOT) projects, hotels and real estate.

Investment thesis

We rate JPA Buy/Low Risk. Driven by a strong hydroelectric capex tail wind, JPA's construction business fundamentals look solid with an order backlog of ~ Rs70bn. With its status as the leading hydroelectric E&C and EPC contractor in the country, JPA looks poised to exploit the vast hydroelectric E&C opportunity over the next decade. The cement business should provide a growth kicker, with JPA increasing capacity to 19.7 MMTPA by FY09-10E. However, we believe JPA's trump cards are 1) the recent award of the Taj Expressway project that provides a civil contract of Rs60bn, a sweetener of 6,250 acres and a 36-year BOT contract; and 2) the portfolio of hydroelectric BOOT projects.

Valuation

Our target price is Rs674 based on a sum-of-the-parts valuation given the company's profile: 1) Construction business: Using an FY08E EV/EBITDA of 10x at a 30% discount to L&T and BHEL, despite higher EBITDA margins, JPA's EBITDA is growing at a much slower pace. 2) Existing 7 MMTPA of capacity: Using an FY08E EV/tonne of US$110, at a discount to front-line cement majors. 3) 3 MMTPA HP Plant + 1 MMTPA Panipat grinding unit + 2.5 MMTPA UPSCL Plant: Using an FY08E EV/tonne of US$90 as capacity additions are due for commissioning by end-FY08E. 4) 1.5 MMTPA Siddhi plant: At BV of investments until FY08E as the plant is due for commissioning in FY09E. 5) Hydel BOOT projects: We value the Baspa project at a 20% holding-company discount to its market value and the Vishnuprayag projects at a P/BV of 2.0x and Karcham Wangtoo at BV. 6) Jaypee Greens: DCF using a discount rate of 15%. 7) Jaypee Hotels: At a 20% holding company discount to the market value.

Risks

We rate JPA Low Risk, which differs from the Medium Risk assigned by our quantitative risk-rating system that tracks 260-day historical share price volatility. This is primarily because JPA's E&C order book of Rs70bn+ implies sales coverage of 3x FY07E, providing earnings visibility for the medium term. Key downside risks to our target price include: the construction business is subject to project risks; and is sensitive to economic variables; the cement business is subject to demand-supply dynamics; further delays in the Taj Expressway project; slowdown in India's hydroelectric power capex; development and commercial risks in developing and selling the land associated with the Taj Expressway project; and substantial declines in real estate prices in the northern parts of India.

Appendix A-1

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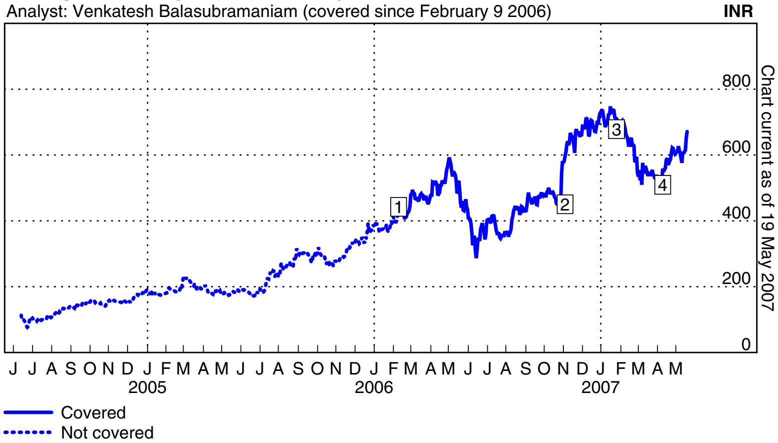
Analyst: Venkatesh Balasubramaniam (covered since February 9 2006)



#	Date	Rating	Target Price	Closing Price
1:	9 Feb 06	1L	557.00	NA
2:	3 Nov 06	1L	*697.00	597.15
3:	25 Jan 07	*2L	*802.00	709.85
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*Indicates change.

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