

### RESULTS REVIEW

#### Jaiprakash Associates Ltd

Hold

##### Share Data

Market Cap	Rs. 275.7 bn
Price	Rs. 1,257.55
BSE Sensex	18,419.0
Reuters	JAIA.BO
Bloomberg	JPA IN
Avg. Volume (52 Week)	0.3 mn
52-Week High/Low	Rs. 1,337.7/448
Shares Outstanding	219.2 mn

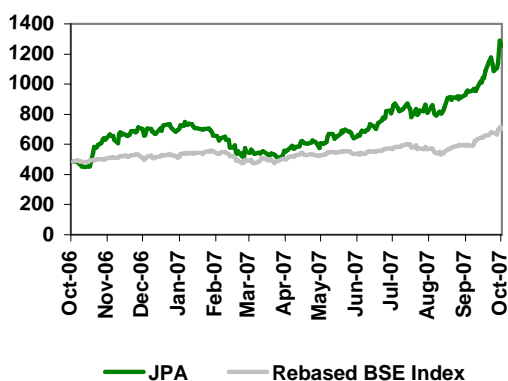
##### Valuation Ratios (Consolidated)

Year to 31 March	2008E	2009E
EPS (Rs.)	32.1	40.0
+/- (%)	36.0%	24.7%
PER (x)	39.2x	31.5x
EV/ Sales (x)	7.3x	5.7x
EV/ EBITDA (x)	20.7x	16.1x

##### Shareholding Pattern (%)

Promoters	48
FII's	26
Institutions	12
Public & Others	14

##### Relative Performance



##### Concrete performance

With a revenue growth of 3.6% yoy and 4.6% qoq, Jaiprakash Associates (JPA) reported good results for Q1FY08. On a yoy basis, revenues grew across all segments with the exception of construction division that fell by 14%. Overall EBITDA margin improved by 221 bps and net profit at Rs. 1,400 mn was higher by 52.2% yoy.

JPA seeks to become the third largest cement group by 2010 with the addition of 23.5 MMTPA to its cement manufacturing capacity. The Company has forayed into steel and wind power sector and entered into JVs for oil & gas exploration, coal mining, and power transmission to become a highly diversified conglomerate. Given its aggressive capex plan and a robust E&C order book, the Company seems aptly placed to capitalize on the growth opportunities in the infrastructure sector. Going forward, the Taj Expressway and the Jaypee Greens Project are expected to contribute significantly to the Company's earnings growth.

At the current price, the stock is trading at a P/E of 39.2x FY08E and 31.5x FY09E. We expect the Company's net sales and net profit to grow at a CAGR of 25.7% and 26.2% during FY07-09E. Based on SOTP valuation, we believe that the current stock price of Rs. 1,257.55 reflects all the positives and hence, we downgrade our rating to **Hold** with a target price of Rs. 1,157.

##### Key Figures (Standalone)

Quarterly Data	1Q07	4Q07	1Q08	YoY%	QoQ%
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(Figures in Rs mn, except per share data)

Net Sales	8,950	8,860	9,270	3.6%	4.6%
EBITDA	2,110	2,630	2,390	13.3%	(9.1%)
Net Profit	920	1,310	1,400	52.2%	6.9%

##### Margins(%)

EBITDA	23.6%	29.7%	25.8%
NPM	10.3%	14.8%	15.1%

##### Per Share Data (Rs.)

EPS	4.0	5.6	5.9	50.0%	5.9%
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### Result Highlights

*Construction revenues declined as old projects were nearing completion*

The Company reported a growth of 3.6% yoy and 4.6% qoq in net revenues. Growth of 26.7% yoy in cement revenues lifted the topline to Rs. 9,270 mn. Construction division, however, fell by 14% yoy to Rs. 4,480 mn as old projects were nearing completion during the quarter which resulted in lower revenue recognition. The current E&C order backlog is Rs. 117.5 bn.

*Operational efficiencies led to improvement in operating margins*

In absolute terms, EBITDA increased by 13.3% yoy to Rs. 2,390 mn. EBITDA margin gained 221 bps to 25.8% due to operational efficiencies that included savings in power costs on account of 100% captive thermal power for cement business. However, increase in employee costs to Rs. 720 mn (up 125% yoy) adversely affected the margins.

Depreciation increased by 15.4% yoy to Rs. 450 mn as Q1FY07 did not include depreciation charges on 38 MW captive thermal power plant and 25 MW wind power plant that were commissioned in Q2FY07 and Q4FY07, respectively.

EBIT for the quarter was Rs. 1,940 mn, while overall EBIT margin stood at 20.9% (up 1.7% yoy). Improvement in cement margins by 792 bps compensated for the decline in the margin of construction division that fell by 77 bps.

*Dividend income of Rs. 308 mn from subsidiary JPVL-Vishnuprayag led to an increase in other income*

Interest expenses rose by 31.7% yoy to Rs. 790 mn as the Company raised debt to fund its capital expenditure. Other income during the quarter climbed 169% yoy to Rs. 780 mn, boosted by higher dividend income of Rs. 308 mn from its subsidiary JPVL-Vishnuprayag.

*Net profit surged due to higher other income and lower taxes*

Tax benefits from wind power plant and higher dividend income resulted in lower tax provision of 27.5% this quarter as against 34.8% in Q1FY07. Consequently, net profit improved by 52.2% yoy to Rs. 1,400 mn. EPS for the quarter was Rs. 5.9 (up 50% yoy and 5.9% qoq).

### Key Events

- Jaiprakash Associates raised USD 400 mn through FCCBs, convertible into equity shares of Rs. 1,238.8 each.
- NHAI has signed an agreement worth Rs. 2,950 mn with JPA for widening 28.7 kms of highway in Punjab, Haryana, and Himachal Pradesh.
- The Company forayed into the steel sector with the acquisition of Malvika Steels for a consideration of Rs. 2,070 mn, through an open auction conducted by the Debt Recovery Tribunal.
- SAIL entered into a JV with JPA to set up a slag-based cement manufacturing plant in Bhilai. The plant will have a capacity of 2.2 MMTPA and will be set up with an investment of Rs. 6 bn. JPA will contribute 74% of the equity and will take responsibility for execution of the project.

*The Company forayed into the steel sector and tied-up with NHAI and SAIL*

### Key Risks

Government regulations, fluctuations in cement prices, increase in debt funds, and delay in completion of power and E&C projects are the key risks to our estimates and thus, to our rating.

### Outlook and Valuation

*Expansion of cement capacity to 30.5 MMTPA by 2010*

*The Taj Expressway and the Jaypee Greens project will be the major growth driver in the long run*

JPA intends to become one of the largest cement players in the country with its expansion programmes that will add 23.5 MMTPA to its capacity by 2010 and will entitle the Company to certain fiscal benefits like savings in excise duty and sales tax. The E&C order book of Rs. 117.5 bn at 6.8x FY07 construction revenues provides great earnings visibility. The commissioning of three run-of the-river BOO Hydropower projects at Baspa, Vishnuprayag, and Karcham Wangtoo would make the group the largest hydropower developer in the private sector in India. Captive power generation facilities will enable the Company to save on power costs. The Taj Expressway and the Jaypee Greens project coupled with the group's foray into the steel sector will give a major thrust to the Company's revenue in the long run.

At the current price, the stock is trading at a P/E of 39.2x FY08E and 31.5x FY09E. We expect the Company's net sales and net profit to grow at a CAGR of 25.7% and 26.2% during FY07-09E. Based on SOTP valuation, we believe that the current stock price of Rs. 1,257.55 reflects all the positives and hence, we downgrade our rating to **Hold** with a target price of Rs. 1,157.

#### Key Figures (Consolidated)

Year to March	FY05	FY06	FY07	FY08E	FY09E	CAGR (%)
(Figures in Rs mn, except per share data)						(FY07-09E)
Net Sales	29,990	32,658	37,960	46,716	59,961	25.7%
EBITDA	8,668	9,104	13,685	16,584	21,346	24.9%
Net Profit	2,345	2,472	5,505	7,030	8,764	26.2%
<b>Margins(%)</b>						
EBITDA	28.9%	27.9%	36.1%	35.5%	35.6%	
NPM	7.8%	7.6%	14.5%	15.0%	14.6%	
<b>Per Share Data (Rs.)</b>						
EPS	13.3	11.8	23.6	32.1	40.0	30.2%
PER (x)	14.9x	39.9x	53.3x	39.2x	31.5x	

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