

## Company Focus

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# Jaiprakash (JAIA.BO)

Target price change

## Buy: India's Infrastructure Capex Play at Stress-case Valuation

- Target price cut to Rs300** — We are cutting our target price to Rs300 from Rs462 to factor in (1) an EV/EBITDA of 12.0x (16.0x previously) for Construction; (2) an EV/ton of US\$120 (US\$160 earlier) for Cement; (3) Jaypee Power at a 60% discount to P/E valuations as we no longer value projects in the initial planning stages; and (4) a 14% cut in realizations/sq ft for Jaypee Infratech. We maintain our earnings estimates.
- Stock looks compelling...** — After a 50%-plus correction, the stock is close to our stress-case value of Rs196.
- ...because** — In 5 years JPA will be: (1) the third-largest cement company in India by capacity; (2) one of the largest landbank holders in India; (3) a power capacity holder of repute with a coal mine; (3) an E&C company without dependence on external orders to grow; (4) a road asset holder with expressways totaling 1,212km; and (5) an executor of India's first F1 project.
- Risks factored in** — Our target price of Rs300 factors in (1) executions risks, (2) capital risks, (3) interest-rate risks, and (4) de-rating of various sectors in which JPA operates given current market conditions. The underlying businesses remain intact and are not under stress, in our view.
- Business value, not P/E value** — Our view is based on business valuations, not private-equity valuations, which is evident from the fact that we value (1) Jaypee Power Ventures at a ~60% discount to P/E valuations, and (2) Jaypee Infratech at a ~37% discount to P/E valuations.

<b>Buy/Low Risk</b>	<b>1L</b>
Price (01 Apr 08)	Rs230.75
Target price	Rs300.00
	<i>from Rs462.00</i>
Expected share price return	30.0%
Expected dividend yield	0.3%
<b>Expected total return</b>	<b>30.3%</b>
Market Cap	Rs267,723M
	US\$6,688M

### Price Performance (RIC: JAIA.BO, BB: JPA IN)

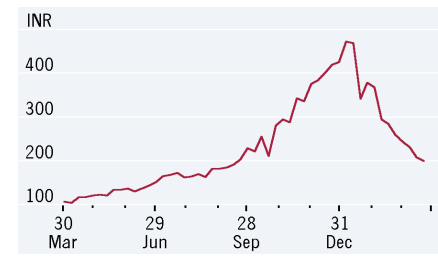


Figure 1. Statistical Abstract

Year to	Net Profit	FD EPS (Rs)	EPS Growth (%)	Cons. FD EPS (x)	EPS Growth (%)	P/E (x)	Cons. P/E (x)	EV / EBITDA (x)	P / Book (x)	ROE (%)	ROCE (%)
31-Mar	(Rsmn)	(Rs)	(%)	(x)	(%)	(x)	(x)	(x)	(x)	(%)	(%)
FY05A	2,076	2.13	10.7%	2.66	2.8%	108.2	86.8	42.6	16.6	18.2%	6.1%
FY06A	2,786	2.37	11.0%	2.76	3.7%	97.5	83.7	43.1	11.6	16.5%	5.7%
FY07A	4,149	3.52	48.9%	4.85	75.9%	65.5	47.6	31.3	9.9	17.6%	6.7%
FY08E	5,428	4.37	24.0%	5.56	14.8%	52.8	41.5	24.6	8.4	19.5%	7.0%
FY09E	8,795	7.08	62.0%	8.27	48.7%	32.6	27.9	16.9	6.7	25.9%	9.2%
FY10E	9,393	7.56	6.8%	8.75	5.8%	30.5	26.4	15.5	5.5	22.4%	9.0%

Source: Company data and Citi Investment Research estimates

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

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Fiscal year end 31-Mar	2006	2007	2008E	2009E	2010E
<b>Valuation Ratios</b>					
P/E adjusted (x)	97.5	65.5	52.8	32.6	30.5
EV/EBITDA adjusted (x)	44.2	30.5	24.6	16.7	15.4
P/BV (x)	11.6	9.9	8.4	6.7	5.5
Dividend yield (%)	0.2	0.3	0.3	0.4	0.4
<b>Per Share Data (Rs)</b>					
EPS adjusted	2.37	3.52	4.37	7.08	7.56
EPS reported	5.44	3.52	4.37	7.08	7.56
BVPS	19.95	23.39	27.48	34.52	41.99
DPS	0.54	0.72	0.75	0.85	0.95
<b>Profit &amp; Loss (RsM)</b>					
Net sales	31,648	34,779	41,485	67,205	79,361
Operating expenses	-26,816	-27,012	-31,555	-52,452	-64,017
<b>EBIT</b>	<b>4,832</b>	<b>7,767</b>	<b>9,930</b>	<b>14,753</b>	<b>15,343</b>
Net interest expense	-2,397	-2,573	-3,586	-3,420	-3,314
Non-operating/exceptionals	1,598	1,004	1,758	1,794	1,991
<b>Pre-tax profit</b>	<b>4,032</b>	<b>6,199</b>	<b>8,102</b>	<b>13,127</b>	<b>14,020</b>
Tax	-1,246	-2,050	-2,674	-4,332	-4,626
Extraord./Min.Int./Pref.div.	3,614	0	0	0	0
<b>Reported net income</b>	<b>6,400</b>	<b>4,149</b>	<b>5,428</b>	<b>8,795</b>	<b>9,393</b>
Adjusted earnings	2,786	4,149	5,428	8,795	9,393
Adjusted EBITDA	6,346	9,398	11,836	17,050	17,910
<b>Growth Rates (%)</b>					
Sales	12.4	9.9	19.3	62.0	18.1
EBIT adjusted	20.3	60.8	27.8	48.6	4.0
EBITDA adjusted	18.6	48.1	25.9	44.0	5.0
EPS adjusted	11.0	48.9	24.0	62.0	6.8
<b>Cash Flow (RsM)</b>					
<b>Operating cash flow</b>	<b>5,239</b>	<b>8,790</b>	<b>15,601</b>	<b>13,990</b>	<b>13,245</b>
Depreciation/amortization	1,515	1,631	1,906	2,297	2,567
Net working capital	-2,681	2,941	8,266	2,898	1,285
<b>Investing cash flow</b>	<b>-8,849</b>	<b>-24,185</b>	<b>-12,000</b>	<b>-9,616</b>	<b>-1,501</b>
Capital expenditure	-5,198	-21,969	-9,000	-3,315	-1,500
Acquisitions/disposals	-3,652	-2,216	-3,000	-6,301	-1
<b>Financing cash flow</b>	<b>13,035</b>	<b>12,997</b>	<b>13,692</b>	<b>-3,725</b>	<b>-1,201</b>
Borrowings	10,209	12,960	14,640	-2,650	0
Dividends paid	-662	-909	-948	-1,075	-1,201
<b>Change in cash</b>	<b>9,425</b>	<b>-2,398</b>	<b>17,292</b>	<b>650</b>	<b>10,543</b>
<b>Balance Sheet (RsM)</b>					
<b>Total assets</b>	<b>85,842</b>	<b>108,775</b>	<b>129,123</b>	<b>139,861</b>	<b>150,496</b>
Cash & cash equivalent	16,697	14,299	31,591	32,241	42,783
Accounts receivable	4,224	4,521	0	1	2
Net fixed assets	28,074	48,412	55,506	56,524	55,458
<b>Total liabilities</b>	<b>64,389</b>	<b>83,136</b>	<b>99,004</b>	<b>102,021</b>	<b>104,464</b>
Accounts payable	4,041	4,832	5,172	9,048	11,064
Total Debt	42,198	55,158	69,798	67,148	67,148
<b>Shareholders' funds</b>	<b>21,453</b>	<b>25,640</b>	<b>30,119</b>	<b>37,840</b>	<b>46,032</b>
<b>Profitability/Solvency Ratios (%)</b>					
EBITDA margin adjusted	20.1	27.0	28.5	25.4	22.6
ROE adjusted	16.5	17.6	19.5	25.9	22.4
ROIC adjusted	10.3	12.1	12.8	18.5	19.4
Net debt to equity	118.9	159.4	126.9	92.2	52.9
Total debt to capital	66.3	68.3	69.9	64.0	59.3

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## Stock looks compelling after correction

JPA has corrected 50%-plus from its peak on miscommunication about JPA's stake in Jaypee Infratech and a broader market correction. At its current price the stock is close to our stress-case value of Rs196, as highlighted below.

Figure 2. JPA — Stress-case Value

Parts	Methodology	Value	Value (US\$ mn)	JPA/Share
Construction	10x FY10E EV/EBITDA (discount to L&T and BHEL)	62,750	1,569	51
Existing Capacity (7 MMTPA)	EV/Tonne of US\$120	33,600	840	27
<b>Total EV (Cement + Construction)</b>		<b>96,350</b>	<b>2,409</b>	<b>78</b>
Net Debt	Including FCCBs as of FY09E	(34,907)	(873)	(28)
FCCB I + II + III Amounts Added Back	As we use FD Shares	25,720	643	21
<b>Cement + Construction Equity Value</b>		<b>87,163</b>	<b>2,179</b>	<b>70</b>
Jaypee Power Ventures (67.4% Stake)	60% discount to ICICI/SBI Private Equity Valuations	40,154	1,004	32
Baspa II - 300MW + Jaypee Power Grid	20% discount to market value	13,933	348	11
Jaypee Greens	DCF Model	11,725	293	9
Jaypee Hotels	Market value	4,870	122	4
<b>JPA ex Jaypee Infratech</b>		<b>157,845</b>	<b>3,946</b>	<b>127</b>
Jaypee Infratech - Taj Expressway (98% Stake)	Only the Noida land on a development basis	85,362	2,134	69
<b>JPA Equity Value</b>		<b>243,207</b>	<b>6,080</b>	<b>196</b>

Source: Citi Investment Research estimates

In 5 years' time JPA would be:

- One of the largest landbank holders in India (36,250 acres);
- Third-largest cement company by capacity with 25+ MMTPA of capacity in a nation embarking on at least a decade-long infrastructure capex;
- 1,700MW of power capacity (if one assumes only Karcham Wangtoo is commissioned by then), 4,245MW of capacity in the pipeline and a coal mine;
- In-house engineering and construction competency that does not depend on external party orders to grow;
- Expressway projects totaling to 1,212km (Ganga + Taj) with tolling rights for 30-plus years; and
- India's first Formula 1 project.

Execution risks are real but at the current price (which is not far from our stress-case value), we reiterate our Buy/Low Risk (1L) rating on the stock with a target price of Rs300.

Despite the miscommunication being addressed adequately, it will likely be an overhang on the stock price in the short term. However, in the longer term as most of JPA's projects move closer to fruition the inherent value in the business would become apparent.

## Target price cut to Rs300

We are cutting our target price to Rs300 from Rs462 as:

- We lower our target construction EV/EBITDA multiple to 12.0x from 16.0x given the broad de-rating of the sector; and
- We cut our cement EV/ton to US\$120 from US\$160, in line with our cement analyst's target valuations.

Figure 3. India Cement Sector Valuations at CIR Target Prices

	Ticker	Rating	Target/Curr. Price (Rs)	Mkt Cap (Rsmn)	EV/EBITDA			EV/ton		
					(x)			US\$		
					CY07E/FY08E	CY08E/FY09E	CY09E/FY10E	CY07E/FY08E	CY08E/FY09E	CY09E/FY10E
ACC	ACC.BO	3M	790/826	148,741	6.4	7.5	10.5	152	145	129
Ambuja	ABUJ.BO	3M	108/121	164,236	6.7	7.5	9.0	207	209	192
UltraTech	ULTC.BO	3M	740/780	92,120	6.6	7.0	7.6	160	124	115

Source: Citi Investment Research estimates

- We cut our valuation of Jaypee Power Ventures to US\$1.5bn from US\$3.1bn as we believe it is unlikely that investors would be comfortable valuing power projects that are at the planning stage in current market conditions. Since ~60% of JPV's capacity is still at the planning stage, we have taken a 60% discount to the SBI/ICICI Bank's valuations of the company, giving us a value of US\$1.5bn for JPV. JPA's stake is worth US\$1.0bn, based on this approach.
- A ~14% cut in our realization/sq ft assumption for Noida land development leads us to cut our valuation of Jaypee Infratech to US\$3.9bn from US\$4.6bn.

Figure 4. JPA — Sum of the Parts

Parts	Methodology	Value	Value (US\$ mn)	JPA/Share
<b>Construction</b>	<b>12x FY10E EV/EBITDA (Discount to L&amp;T and BHEL)</b>	<b>75,300</b>	<b>1,883</b>	<b>61</b>
Existing Capacity (7 MMTPA)	EV/Tonne of US\$120	33,600	840	27
UP Plant (2.5 MMPTA)	EV/Tonne of US\$120 (FY09E Commissioning)	12,000	300	10
HP Plant (4 MMPTA)	EV/Tonne of US\$120 (FY09E Commissioning)	19,200	480	15
<b>Cement Capacity In Parent By FY10E</b>	<b>13.5MMTPA</b>	<b>64,800</b>	<b>1,620</b>	<b>52</b>
Siddhi Cement (1.5 MMTPA)	EV/Tonne of US\$120 (FY09E Commissioning)	7,200	180	6
Less Siddhi Cement Capex	(FY09E Commissioning)	(6,000)	(150)	(5)
Gujarat Anjan (1.2 MMTPA)	EV/Tonne of US\$120 (FY10E Commissioning)	5,760	144	5
Less Siddhi Cement Capex	(FY10E Commissioning)	(6,000)	(150)	(5)
<b>Total EV (Cement + Construction)</b>		<b>141,060</b>	<b>3,527</b>	<b>114</b>
Net Debt	Including FCCBs as of FY09E	(34,907)	(873)	(28)
FCCB I + II + III Amounts Added Back	As we use FD Shares	25,720	643	21
<b>Cement + Construction Equity Value</b>		<b>131,873</b>	<b>3,297</b>	<b>106</b>
<b>Jaypee Power Ventures (80.6% Stake)</b>	<b>60% Discount to ICICI/SBI Private Equity Valuations</b>	<b>40,154</b>	<b>1,004</b>	<b>32</b>
Baspa II - 300MW + Jaypee Power Grid	20% discount to market value	13,933	348	11
Amelia and Dongrital Coal Block	DCF of Cash Flows	6,215	155	5
Churk Power Project - 500MW (MPP)	DCF of Cash Flows	9,000	225	7
<b>Other Power + Coal Assets</b>		<b>29,148</b>	<b>729</b>	<b>23</b>
Jaypee Greens	DCF Model	11,725	293	9
Jaypee Hotels	Market value	4,870	122	4
<b>JPA ex Jaypee Infratech</b>		<b>217,770</b>	<b>5,444</b>	<b>175</b>
Jaypee Infratech - Taj Expressway (98% Stake)	6225 acres of land. Noida on development basis. Rest on land value.	155,317	3,883	125
<b>JPA Equity Value</b>		<b>373,088</b>	<b>9,327</b>	<b>300</b>

Source: Citi Investment Research estimates

### What are we not valuing?

- Upside from valuing Jaypee Infratech at private-equity valuations
- Upside from valuing Jaypee Power Ventures at private-equity valuations
- Upside from the entire Ganga Expressway
- Upside from the F1 project plans
- Cement capacity additions beyond what we have factored in

**Our Take:**

- (1) **JPA will hold a 98% stake in Jaypee Infratech post the private equity deal with ICICI Bank**
- (2) **The deal values Jaypee Infratech at US\$6.25bn**
- (3) **However, we have cut our valuation to US\$3.9bn (~37% discount to private equity valuation) from US\$4.6bn**
- (4) **Our discount is based on the following risks: (a) higher interest rates, (b) slowdown in residential volumes, (c) stagnating property prices, (d) regulatory measures, (e) potential oversupply in the NCR region**
- (5) **Last but not least, a 1% private stake is too small an amount to be taken as a benchmark and at best provides a rough indication of value**

## Jaypee Infratech: Private equity deal done

### Miscommunication in a public forum

- According to JPA, in Feb 2008 at a public conference, miscommunication had led investors to believing that JPA has only a 55% stake in Jaypee Infratech (JI), the vehicle executing the Taj Agra Expressway and the associated real estate project.
- JI initially had an authorized and paid-up capital of Rs2bn, which JPA had subscribed to in entirety owning a 100% stake. As JPA was evaluating private equity infusion JI had increased the authorized capital to Rs10bn. JPA subscribed to an additional Rs3.5bn, taking its equity investment to Rs5.5bn out of the total Rs10bn of authorized capital.
- According to the company it would not be fair to assume that it would not subscribe to the remaining Rs4.5bn and dilute its stake in favour of another party and its stake would be only 55%.

### Release to BSE showing intention of having 99% stake

- JPA has informed the BSE that the company will consider approving by way of postal ballot the special resolution to make an investment of Rs4.4bn to acquire 440m equity shares of JI at Rs10 each at par in one or more tranches.

### Private equity deal values Jaypee Infratech at US\$6.25bn

- JI has entered into a strategic investment agreement with ICICI Bank Limited under which ICICI Bank will subscribe to 10m shares of JI, taking a stake of 1% for Rs2.5bn (US\$62.5m) — valuing the company at Rs250bn (US\$6.25bn).
- In addition, ICICI Bank will also provide Rs9bn (US\$225mn) of long-term loans to JI. Post this issue JPA will have a 98% stake in JI.

### Cutting our valuation for Jaypee Infratech to US\$3.9bn from US\$4.6bn

According to our real estate analyst Ashish Jagnani:

- **Affordability an issue:** Given the Central Government priority to reining in inflation it is unlikely that the RBI would cut interest rates in a hurry. With home loan interest at a high ~10%-plus, near term affordability has been impacted.
- **Significant slowdown, particularly residential volumes:** Buyers are staying away, pace of pre-launches have slowed and housing loan growth has tapered off.
- **Stagnating property prices:** After some cool-off, prices in residential are stagnating. With demand still sluggish and supply risks in the near-term, recovery appears unlikely.
- **Regulatory measures raise liquidity concerns:** Developers face funding constraints with high interest costs and government measures to tighten liquidity; volatile capital flows add to this.

- **Supply risks building:** With most developers looking at significant ramp-up in volumes, we see a potential supply glut, especially in the NCR, where we believe the build-out is aggressive.

*As a consequence we have cut our realization/sq ft assumption for the Noida land development by ~14%, leading us to cut our valuation of JI to US\$3.9bn from US\$4.6bn.*

**Figure 5. Noida Land Developmental Valuations**

NOIDA 1 Developmental Value										
Type	Area %	Area sqft	Sale Price Rs/sqft	Development Cost Rs/sqft	SGA %	Net Inflow Rsmn	Net Outflow Rsmn	Net Flow Rsmn	Discount Rate %	NAV Rsmn
Residential	63%	22	5600	1500	5%	123,480	34,729	88,751	14%	56,106
Institutional	9%	3	5200	1800	5%	16,380	5,954	10,427	14%	5,415
Recreational	12%	4								
Roads	12%	4								
Commercial	4%	1	5100	1500	5%	7,140	2,205	4,935	14%	3,331
<b>Total</b>	<b>100%</b>	<b>35</b>	<b>4,200</b>			<b>147,000</b>	<b>42,887</b>	<b>104,113</b>		<b>64,852</b>
Tax @ 30%										(21,401)
<b>NAV</b>										<b>43,451</b>
<b>NAV/Share (Rs)</b>										<b>35</b>
NOIDA 1 Developmental Value										
Type	Area %	Area sqft	Sale Price Rs/sqft	Development Cost Rs/sqft	SGA %	Net Inflow Rsmn	Net Outflow Rsmn	Net Flow Rsmn	Discount Rate %	NAV Rsmn
Residential	63%	23	5600	1500	5%	128,625	36,176	92,449	14%	58,444
Institutional	9%	3	5200	1800	5%	17,063	6,202	10,861	14%	5,641
Recreational	12%	4								
Roads	12%	4								
Commercial	4%	1	5100	1500	5%	7,438	2,297	5,141	14%	3,470
<b>Total</b>	<b>100%</b>	<b>36</b>	<b>4,200</b>			<b>153,125</b>	<b>44,674</b>	<b>108,451</b>		<b>67,554</b>
Cost of Land @ Rs8mn/acre										(5,000)
<b>Pre Tax NAV</b>										<b>62,554</b>
Tax @ 30%										(20,643)
<b>NAV</b>										<b>41,911</b>
<b>NAV/Share (Rs)</b>										<b>34</b>

Source: Citi Investment Research estimates

**Figure 6. Jaypee Infratech Valuations**

Proposed Locations	Area Acres	Area sqft	FSI (x)	Market Rate (Rsmn/acre)	Land Cost (Rs/acre)	Net Value of Land Rsmn	NAV Rsmn	Value Rsmn	Per Share Rs
NOIDA 1	600	35	1.3		2.2		55,985	43,451	35
NOIDA 2	625	36	1.3		8.0		54,818	41,911	34
Dhankaur (Just Outside Greater Noida)	1250	73	1.3	10.0	1.0	11,250	0	0	9
Mirzapur (20 km from Proposed International Airport – closer to Noida)	1250	73	1.3	10.0	1.0	11,250	0	0	9
Tappal (12 km from Proposed International Airport - closer to Agra)	1250	73	1.3	10.0	1.0	11,250	0	0	9
Agra	1250	73	1.3	35.0	3.5	39,375	0	0	32
<b>Total</b>	<b>6225</b>	<b>363</b>	<b>1.3</b>			<b>73,125</b>	<b>110,802</b>	<b>85,362</b>	<b>128</b>

Source: Citi Investment Research estimates

**Our Take:**

- (1) JPV has placed 15.5m shares with ICICI and SBI at Rs234. At this price JPV would be valued at US\$3.1bn
- (2) Given that ~60% of JPV's capacity is in the planning stages, we value JPV at a 60% discount to the above valuation
- (3) JPA's current 80.6% stake in JPV is worth US\$1.0bn at CIR valuations

## Jaypee Power Ventures

- Jaypee Power Ventures (JPV), a subsidiary of JPA, is targeting to build 5,645MW of generation capacity by 2016 with the attributable MW at 4,734.
- However, it is pertinent to note that almost ~60% of the total capacity (3,245MW), comprising Lower Siang, Hirong, Kynshi II and Umngot, is in the planning stages.

**Figure 7. Jaypee Power Ventures**

Project	Capacity (MW)	Stake %	Attributable (MW)	Cost (Rsmn)	COD
Vishnuprayag	400	100.00%	400	16,940	2006
Karcham Wangtoo	1,000	55.36%	554	5,600	2011
Nigrie Thermal	1,000	100.00%	1,000	50,000	2012
Lower Siang	2,025	89.00%	1,802	-	2014
Hirong	500	89.00%	445	-	2015
Kynshi II	450	74.00%	333	-	2016
Umngot	270	74.00%	200	-	2016
<b>Total Generation</b>	<b>5,645</b>		<b>4,734</b>		
Transmission Line	230km	23.00%		10,000	2010

Source: Citi Investment Research

- JPV has placed 10.5m and 5m shares with ICIC Bank and SBI respectively at Rs234 valuing the company at US\$3.1bn.

**Figure 8. Jaypee Power Ventures — Shareholding Structures**

Shareholders	mn
Jaiprakash Associates	429.00
Jaypee Ventures Private Limited	80.00
ICICI Bank	10.50
State Bank of India	5.00
Manoj Gaur (Jaypee Group Employees Welfare Trust)	8.00
Others	0.00
<b>Total shares</b>	<b>532.50</b>

Source: Company and Citi Investment Research

- We have cut our valuation of JPV to US\$1.2bn from US\$3.1bn as we believe it is unlikely that investors would be comfortable valuing power projects which are in the planning stages in the current market conditions.
- Since ~60% of JPV's capacity is still in the planning stages, we have taken a 60% discount to the SBI/ICICI Bank's valuations of the company giving us a value of US\$1.2bn for JPV and consequently JPA's current stake is worth US\$1.0bn.



**Figure 9. Jaypee Power Ventures Valuations**

Issue Price to SBI and ICICI	234
Mkt Cap at Rs234 (Rsmn)	124,605
<b>Mkt Cap at Rs234 (US\$mn)</b>	<b>3,115</b>
CIR Discount	60%
<b>CIR Value Post Discount</b>	<b>1,246</b>
Current Stake of JPA	80.6%
<b>Value of JPA Stake (US\$mn)</b>	<b>1,004</b>
<b>Value/Share</b>	<b>32.3</b>

Source: Citi Investment Research estimates

## Ganga Expressway: Too early to value the upside

### Concession agreement signed

JPA's wholly owned subsidiary, Jaypee Ganga Infrastructure Corporation (JGIC), has signed a concession agreement with Uttar Pradesh Expressways Industrial Development Authority (UPEIDA) for the 1,047km, 6-lane access controlled Ganga Expressway from Greater Noida to Ballia on March 23, 2008 and has also deposited a bank guarantee of Rs14.9bn.

### How was the bidding done?

- The Government of Uttar Pradesh (UP) had published the location of 75,000 hectares of land parcels and the corresponding circle rates of each land parcel. The circle rates are not recent market transaction prices of land, but rather are rates of land transactions in the past and generally published to calculate the stamp duty.
- The bidders were supposed to quote a price (in rupees) which they expected the government to pay for constructing the expressway. The government would pay in terms of land where Winning Bid = Area X Circle Rate and not cash.
- After winning the bids successfully, JPA is now negotiating the land parcel locations with the government of UP. The land parcels are expected to be in Secunderabad, Etah, Unnao, Allahabad and Varanasi.

### More details on the project

- The real estate land sweetener as part of a concession would be ~30,000 acres, translating into potential development of 3.3bn sqft.
- Around 70% (21,000 acres) of the landbank is likely to be within 180km from Delhi vis-à-vis the earlier expectation of it being spread along the 1,047km expressway.
- Out of the 30,000 acres of real estate land, ~17,000 – 20,000 acres is likely to be in Etah, where the company intends to develop a city like Chandigarh. This city will be on the expressway and will be at a ~2.5 hours drive from Delhi.

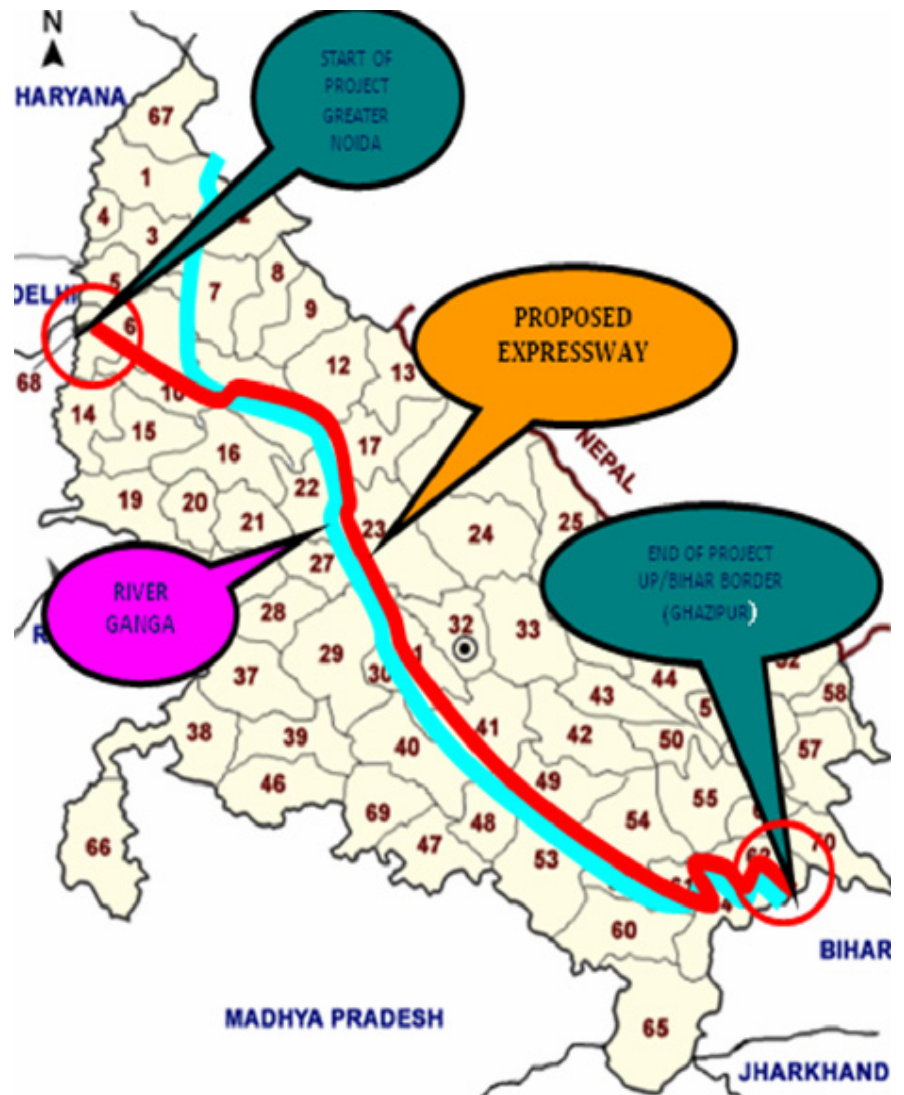
- According to the company the construction cost of the expressway would be Rs350bn vs. government estimates of Rs300bn. Further, the land acquisition cost for both the expressway and the real estate development would be Rs10bn.
- JGIC intends to acquire land for the expressway over the next 2 years and it may take 5 years to build the expressway.
- 10% of the land for the project is already with the government and 20% of the land is free land without a claimant. As a consequence this 30% can be transferred to the company easily.

**Figure 10. Ganga Expressway's 4 Contract Packages**

<b>Contract</b>	<b>Road Section of Contract</b>	<b>Length (km)</b>	<b>Value (Rsbn)</b>	<b>Value (US\$bn)</b>
1	Greater Noida to Fatehgarh + Link 1	253	76.31	1.9
2	Fatehgarh to Dalmau (Raibareli) + Link 2	305	80.12	2.0
3	Dalmau to Aurai (Bhadoi) + Link 3	211	61.24	1.5
4	Aurai (Bhadoi) to Balia	278	80.58	2.0
<b>Total</b>		<b>1047</b>	<b>298.25</b>	<b>7.5</b>

Source: UPEIDA and Citi Investment Research

Figure 11. Ganga Expressway



Source: Government of Uttar Pradesh

# 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 strategy

We rate Jaiprakash Buy/Low Risk. It is an evolving infrastructure asset play that has gathered substantial momentum over the previous 3 years through four engines of growth: (1) real estate; (2) cement; (3) engineering and construction; and (4) power projects, working in tandem. Over years Jaiprakash has won key projects that have multiple value drivers. An example is the Taj Expressway project, which creates value on three fronts: (1) real estate; (2) construction; (3) and the BOT project. A recent case in point is the F1 track project, which could be another big value creator in future.

## Valuation

Our target price of Rs300 is based on a sum-of-the-parts valuation given the company's profile: 1) Construction business using FY10E EV/EBITDA of 12x, a 20% discount to larger peers L&T (LART.BO; Rs3,024.80; 1L) and BHEL (BHEL.BO; Rs2,056.55; 1L); 2) Cement capacity is valued at US\$120/ton, in line with our cement analyst's target valuations; 3) The Baspa project at a 20% discount to market value; 4) The Churk Project and coal mines using DCF; 5) Jaypee Power Ventures at a 60% discount to SBI/ICICI private-equity valuations; 6) Jaypee Greens using DCF; 7) Jaypee Hotels at a 20% discount to the market value; and 8) Jaypee Infratech using a mix of developmental and land valuations.

## Risks

We rate Jaiprakash 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 Rs115bn-plus implies sales coverage of 6.9x FY07, providing earnings visibility for the medium term. Key downside risks to the shares reaching 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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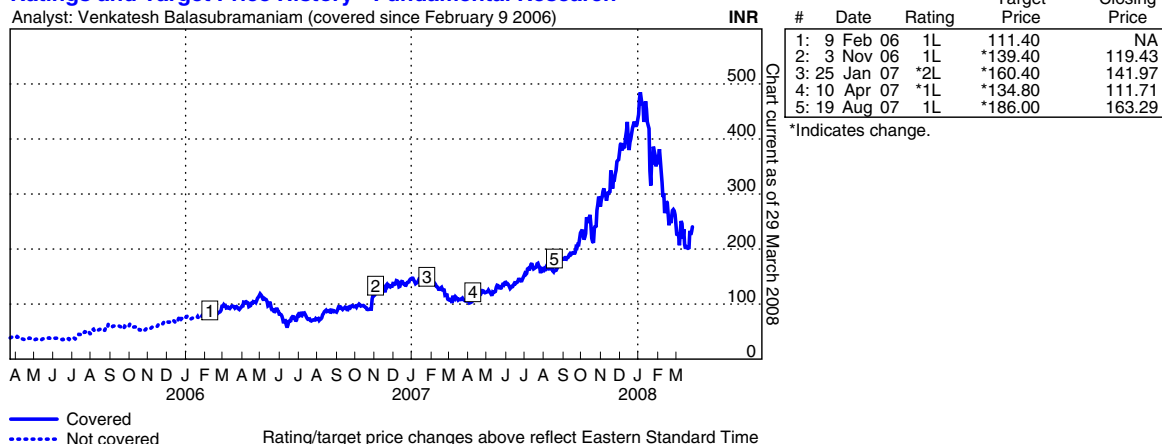
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Analyst: Venkatesh Balasubramaniam (covered since February 9 2006)



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