

# Jyoti Structures

Rs132  
OUTPERFORMER

## RESULT NOTE

Mkt Cap: Rs10.8bn; US\$229m

**Analyst:** Bhoomika Nair (91-22-6638 3337; bhoomika@idfcsski.com)

**Result:** Q2Y10

**Comment:** Marginally lower than our estimates led by lower revenues; Huge pipeline of orders from PGCIL, others

**Last report:** 28 July 2009 (Price Rs168 Recommendation: Outperformer)

### Key standalone financials

Year ended	Revenues (Rs m)	% growth, yoy	Adj. PAT (Rs m)	EPS (Rs)	% growth, yoy	PE (x)
2007	9,709	39.6	545	6.8	70.6	19.4
2008	13,704	41.1	679	8.9	30.8	14.8
2009	17,171	25.3	797	9.8	9.5	13.5
2010E	20,621	20.1	914	11.2	14.5	11.8
2011E	24,992	21.2	1,118	13.7	22.3	9.6

## KEY HIGHLIGHTS

- Profit after tax has increased by 4% yoy to Rs209mn (our estimates of Rs220mn). The profit is marginally lower than our estimates led by lower than estimated revenues during the quarter.
- Revenues grew by 11.5% yoy to Rs4.7bn in 2QFY10 led by an order backlog of Rs39bn. The transmission revenues accounted for 68% of the revenues, while rural electrification accounted for 19% of revenues and balance revenues were from substation orders. On the other hand, domestic segment accounted for 80% of revenues.
- Jyoti has an order backlog of Rs39bn (+8% yoy) at end of the quarter. The mix of the order backlog is 63% towards transmission, 22% towards rural electrification and the balance 15% from substation orders. On the other hand, majority of the orders are from the domestic market comprising 97% of the order backlog.
- Jyoti's order booking continued to remain strong during the quarter at Rs4bn (+8% yoy), were primarily by PGCIL during the quarter.
- Jyoti expects the order inflow to continue at a strong pace over the next few quarters led by the huge investments planned by both central and state utilities. Over the next quarter, Jyoti is evaluating tenders worth Rs30bn (50% from PGCIL) and another Rs10bn on BOOT basis from state utilities such as Rajasthan and Haryana. Apart from these tenders, Jyoti has already bid for Rs20bn worth of orders from PGCIL, where it is awaiting the outcome of the bids.

### Trend in order backlog

(Rs m)	1QFY09	2QFY09	3QFY09	4QFY09	FY09	1QFY10	2QFY10	% growth yoy
Order backlog	35,600	36,160	35,100	36,060	36,060	39,590	39,000	7.9
Order booked	5,510	4,840	3,220	5,659	19,229	8,430	4,080	(15.7)
Book to bill ratio (x)	2.60	2.11	2.04	2.10	2.10	2.31	2.27	

- Operating margins fell by 120bps yoy to 10.8% in 2QFY10, in line with our estimates. The margins have been impacted led by higher bank guarantee charges as well as higher subcontracting charges (higher outsourcing). Consequently, EBITDA remained flat on a yoy basis at Rs505mn.
- Interest expenses were flat on a yoy basis at Rs173mn, and 2% lower on a qoq basis. The lower interest costs are due to lower interest rates (higher proportion of ECB debt of Rs1bn which has interest rate of 7%). The total debt is at Rs4bn at the end of the quarter. Jyoti plans to incur capex of Rs600mn in FY10 (construction / stringing equipment).
- Other income increased to Rs34mn in the quarter due to the lease rentals earned on the stringing equipment it has leased to its subsidiary, Gulf Jyoti.
- Consequently, profit after tax has increased by 4% yoy to Rs209mn.

#### ❑ **Entering the BOT space**

Jyoti, like other players, is eyeing the BOT space for transmission segment. Accordingly, it has been looking at various projects from state boards such as Haryana, Rajasthan, etc. Jyoti plans to have a 100% stake in the Rajasthan BOT project, while it plans to bid in a consortium in the in Haryana BOT project, in which it plans to have 26% stake. The total equity required for both these projects at 70:30 debt equity ratio would be Rs2bn.

#### ❑ **Other highlights**

- Jyoti has received all the approvals for Reliance Infrastructure's order in the last week of September. The foundation work and supplies have begun. The order is likely to be completed by May 2011.
- Gulf Jyoti has received an order worth Rs2bn from Algeria for transmission lines and is also supplying towers in Qatar and Algeria. Moreover, it is looking at orders in Dubai, Oman and Tunisia. The management expects revenues of AED125mn in CY09 and AED300mn in CY10.
- Jyoti's African subsidiary' projects are in the completion stage and is looking at some orders in the region. The subsidiary is likely to report revenues of Rs1.2bn in FY10.
- Both the subsidiaries are unlikely to report any profits in FY10 and are likely to be profitable only next year.

#### ❑ **Maintain Outperformer**

We have downgraded our FY10E and FY11E earnings estimates by 2% respectively on back of lower revenues during the quarter. We believe the strong pipeline of domestic orders from PGCIL's grid expansion and rural electrification program coupled with international orders will continue to drive Jyoti's order backlog over the next 1-2 years. We believe Jyoti's order backlog of Rs39bn (2.3x FY09 revenues), would drive Jyoti's earnings at 18% CAGR over FY09-11. The stock currently trades at 11.8x FY10E earnings and 9.6x FY11E earnings. Given the strong pipeline of orders, earnings growth visibility over the next two years and strong return ratios, we believe valuations are attractive. We maintain Outperformer rating on the stock with a target price of Rs175/share.

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Quarterly results

(Rs mn)	1Q09	2Q09	3Q09	4Q09	FY09P	1Q10	2Q10	FY10E	Remarks
<b>Net Sales</b>	<b>4,016</b>	<b>4,212</b>	<b>4,302</b>	<b>4,699</b>	<b>17,171</b>	<b>4,847</b>	<b>4,696</b>	<b>20,621</b>	
Total Expenses	3,536	3,707	3,814	4,209	15,211	4,319	4,190	18,398	Margins impacted due to higher other bank gaurantee, erection & conversion charges
<b>EBITDA</b>	<b>480</b>	<b>505</b>	<b>488</b>	<b>490</b>	<b>1,959</b>	<b>529</b>	<b>505</b>	<b>2,223</b>	
OPM (%)	12.0	12.0	11.3	10.4	11.4	10.9	10.8	10.8	
Other Income	4	0	29	38	73	19	34	73	
Interest	134	174	184	190	683	178	173	726	Lower interest rates aid fall in interest costs; Total debt Rs4bn
Depreciation	17	18	22	29	86	31	35	154	Capex of Rs600mn in FY10 (already incurred Rs300mn)
<b>PBT</b>	<b>333</b>	<b>312</b>	<b>310</b>	<b>309</b>	<b>1,264</b>	<b>339</b>	<b>331</b>	<b>1,416</b>	
Tax	128	111	129	98	466	115	123	503	
Tax Rate (%)	38.3	35.6	41.7	31.8	36.9	34.0	37.0	35.5	
<b>PAT</b>	<b>205</b>	<b>201</b>	<b>181</b>	<b>210</b>	<b>797</b>	<b>224</b>	<b>209</b>	<b>914</b>	
<b>% chg yoy</b>									
Sales	35.4	32.4	24.5	14.6	25.3	20.7	11.5	20.1	
EBITDA	30.8	26.7	11.5	(4.9)	14.0	10.0	0.2	13.4	
Other Income	327.6	(98.0)	607.9	494.5	382.9	408.1	-	0.0	
Interest	40.0	64.1	75.2	20.8	47.0	32.9	(0.5)	6.4	
Depreciation	5.6	13.8	33.6	58.5	28.9	77.7	92.2	77.9	
PBT	29.9	11.4	(3.2)	(10.8)	5.1	1.8	6.1	12.1	
PAT	28.2	18.6	(10.4)	9.3	10.1	8.9	3.8	14.5	
Equity	81.7	81.7	81.7	81.7	81.7	153.7	153.7	81.7	
EPS	2.5	2.5	2.2	2.6	9.8	1.5	1.4	11.2	
PER (x)	13.1	13.4	14.9	12.8	13.5	22.7	24.3	11.8	

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Analyst	Sector/Industry/Coverage	E-mail	Tel. +91-22-6638 3300
Pathik Gandotra	Head of Research; Financials, Strategy	pathik@idfcsski.com	91-22-6638 3304
Shirish Rane	Construction, Power, Cement	shirish@idfcsski.com	91-22-6638 3313
Nikhil Vora	FMCG, Media, Mid Caps, Education, Exchanges	nikhilvora@idfcsski.com	91-22-6638 3308
Ramnath S	Automobiles, Auto ancillaries, Real Estate, Oil & Gas	ramnaths@idfcsski.com	91-22-6638 3380
Nitin Agarwal	Pharmaceuticals	nitinagarwal@idfcsski.com	91-22-6638 3395
Chirag Shah	Metals & Mining, Telecom, Pipes, Textiles	chirag@idfcsski.com	91-22-6638 3306
Bhoomika Nair	Logistics, Engineering	bhoomika@idfcsski.com	91-22-6638 3337
Hitesh Shah	IT Services	hitesh.shah@idfcsski.com	91-22-6638 3358
Bhushan Gajaria	Retailing, FMCG, Media, Mid Caps	bhushangajaria@idfcsski.com	91-22-6638 3367
Ashish Shah	Construction, Power, Cement, Telecom	ashishshah@idfcsski.com	91-22-6638 3371
Salil Desai	Construction, Power, Cement	salil@idfcsski.com	91-22-6638 3373
Ritesh Shah	Pharmaceuticals, IT Services	riteshshah@idfcsski.com	91-22-6638 3376
Neha Agrawal	Financials	neha@idfcsski.com	91-22-6638 3237
Swati Nangalia	Mid Caps, Media, Exchanges	swati@idfcsski.com	91-22-6638 3260
Sameer Bhise	Strategy, Financials	sameer@idfcsski.com	91-22-6638 3390
Shweta Dewan	Mid Caps, Education, FMCG	shweta.dewan@idfcsski.com	91-22-6638 3290
Nikhil Salvi	Construction, Power, Cement	nikhil.salvi@idfcsski.com	91-22-6638 3239
Rajeev Desai	Real Estate	rajeev@idfcsski.com	91-22-6638 3231
Chinmaya Garg	Financials	chinmaya@idfcsski.com	91-22-6638 3325
Aniket Mhatre	Automobiles, Auto ancillaries	aniket@idfcsski.com	91-22-6638 3311
Probal Sen	Oil & Gas	probal@idfcsski.com	91-22-6638 3238
Saumil Mehta	Metals, Pipes	saumil.mehta@idfcsski.com	91-22-6638 3344
Rupesh Sonawale	Database Analyst	rupesh@idfcsski.com	91-22-6638 3382
Dharmesh Bhatt	Technical Analyst	dharmesh@idfcsski.com	91-22-6638 3392
Equity Sales/Dealing	Designation	E-mail	Tel. +91-22-6638 3300
Naishadh Paleja	MD, CEO	naishadh@idfcsski.com	91-22-6638 3211
Paresh Shah	MD, Dealing	paresh@idfcsski.com	91-22-6638 3341
Vishal Purohit	MD, Sales	vishal@idfcsski.com	91-22-6638 3212
Nikhil Gholani	MD, Sales	nikhil@idfcsski.com	91-22-6638 3363
Sanjay Panicker	Director, Sales	sanjay@idfcsski.com	91-22-6638 3368
V Navin Roy	Director, Sales	navin@idfcsski.com	91-22-6638 3370
Suchit Sehgal	AVP, Sales	suchit@idfcsski.com	91-22-6638 3247
Pawan Sharma	MD, Derivatives	pawan.sharma@idfcsski.com	91-22-6638 3213
Dipesh Shah	Director, Derivatives	dipeshshah@idfcsski.com	91-22-6638 3245
Jignesh Shah	AVP, Derivatives	jignesh@idfcsski.com	91 22 6638 3321
Sunil Pandit	Director, Sales trading	sunil@idfcsski.com	91-22-6638 3299
Mukesh Chaturvedi	SVP, Sales trading	mukesh@idfcsski.com	91-22-6638 3298
Viren Sompura	VP, Sales trading	viren@idfcsski.com	91-22-6638 3277
Rajashekhar Hiremath	VP, Sales trading	rajashekhar@idfcsski.com	91-22-6638 3243

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2. Neutral: Within 0-10% to Index
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