

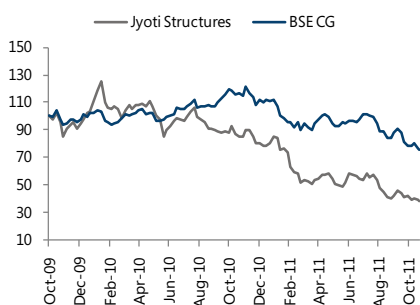
Result Update - Q2FY12

Buy

Reco	Maintain
CMP	₹ 61
Target Price	₹ 97
Upside Potential	60.5%

Price Performance

52 wk Hi/Lo	147/60
All time Hi/Lo	327/2
6 mnth Average Vol	137539
Stock Beta	0.88



Valuation

	FY11	FY12P	FY13P
P/E (x)	4.5	4.4	3.7
P/BV (x)	0.8	0.7	0.6
RONW (%)	20.1	17.4	17.5
ROCE (%)	17.0	15.5	15.1

Peer Valuation (FY13P)

	KEC	KTL	Avg
P/E	5.0	5.3	4.7
P/BV	1.1	0.7	0.8

Equity Data

Market Cap. (₹ bln)	5
Face value (₹)	2
No of shares o/s (mln)	82

	Sep'10	Sep'11	%ch
Promoters	26.76	27.60	3.14
DFI's	33.32	26.87	-19.36
FII's	9.91	9.14	-7.77
Public	30.01	36.39	21.26

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Jyoti Structures

Strong execution.....profitability erodes

Sales growth exceeds expectations; margins decline

JSL's revenues grew 16.5% y-o-y to ₹ 6.3bln in Q2FY12; surpassing our estimates by 4.5%. EBIDTA for the company grew by 8% y-o-y to ₹ 680mln in Q2FY12 as compared to ₹ 631mln in Q2FY11. EBIDTA margin declined to 10.76% as compared to 11.64% in the corresponding quarter of last year due to y-o-y increase in other expenditure as percentage of sales from 8.2% to 9.6% in Q2FY12.

PAT declines by 11% to ₹ 221mln, high interest cost weighs on bottom line

PAT for the company stood at ₹ 221mln; declining 11% due to increase in interest cost by 50% to ₹ 310mln. The rise in interest cost is a result of increase in LC charges and increase in working capital due to increase in debtors. Hence, the total debt for the company at Q2FY12 end stands at ₹ 5.8bln (vs ₹ 4.9bln in Q1FY12 and ₹ 3.9bln in Q2FY11).

Order book at ₹ 43.8bln; order inflow at ₹ 5.5bln

JSL's order backlog currently stands at ₹ 43.8bln (up 3% y-o-y). Currently, PGCIL's share in unexecuted order book has increased to 35%, while MSEDCL and MSCTCL constitute 18%; private players such as Jaiprakash Power, Adani and Reliance Infra contribute 11%; while the rest is contributed by other utilities (Rajasthan, DVC, Chhattisgarh etc). The order inflow for JSL for the quarter has been reasonable at ₹ 5.5bln (down 22% y-o-y) amidst stiff competition due to lack of order awards. Majority of the order inflow came in from PGCIL.

Outlook and Valuation

JSL is confident of maintaining strong revenue growth for H2FY12. It expects order inflow to improve as it sees various opportunities from PGCIL as well as few private BOOT projects (in UP, Rajasthan etc). Although we are cautious on earnings growth as high interest cost will keep the earnings under pressure and may lead to stretched working capital cycle. Therefore we cut down our PAT estimates by 8.9% and 10.9% for FY12P and FY13P respectively. As per revised estimates, the stock trades at 4.4x FY12P and 3.7x FY13P earnings respectively and trades at a discount to its peers. We maintain BUY with a TP of ₹ 97 (6x FY13P EPS).

Summary Financials

₹ in Mln	FY10	FY11	FY12P	FY13P
Net Sales	20131	23797	27301	29759
OPBDIT	2344	2739	3006	3352
Net Profit	910	1109	1131	1325
EPS	11.2	13.5	13.8	16.1
Net worth	5033	6018	7002	8155
Debt	3606	4767	5617	6017
Fixed Assets	1716	1843	1928	1980
Net Current Assets	6898	8421	10170	11671

Exhibit 1: Q2FY12 Performance Highlights

(in ₹ Mln)	Q2FY12	Q2FY11	y-o-y	Q1FY12	q-o-q
Total Income	6321	5423	17%	6377	-1%
Raw Material Cost	3579	3240	10%	3705	-3%
Staff Cost	205	160	28%	197	4%
Other Expenditure	609	445	37%	576	6%
Erection & Sub contracting Exps	1248	947	32%	1197	4%
OPBDIT	680	631	8%	701	-3%
OPBDIT Margin %	10.8	11.6		11.0	
Depreciation	56	53	6%	55	1%
Interest Cost (Net)	310	207	50%	270	15%
Other Income	20	2	705%	13	50%
PBT	334	374	-11%	390	-14%
Tax	113	125	-10%	129	-13%
PAT	221	248	-11%	261	-15%
EPS	2.69	3.04		3.18	

Source: Company

Sales growth exceeds expectations

Jyoti Structures limited (JSL)'s revenues grew 17% y-o-y to ₹ 6.3bln in Q2FY12 as compared to ₹ 5.4bln in Q2FY11 driven by strong execution. The domestic market contributed 70% to the sales and the rest was contributed by exports and deemed exports.

EBIDTA grew by 8% y-o-y to ₹ 680mln in Q2FY12 as compared to ₹ 631mln in Q2FY11. Although material cost as a percentage of sales declined from 59.7% in Q2FY11 to 56.6% in Q2FY12; other expenditure as a percentage of sales increased from 8.2% in Q2FY11 to 9.6% in Q2FY12. Consequently, EBIDTA margin declined by about 90bps y-o-y to 10.8%

JSL's debt has increased to ₹ 5.8bln in Q2FY12 from ₹ 4.9bln in Q1FY12 and ₹ 3.9bln in Q2FY11. Consequently interest expenses rose by 50% y-o-y to ₹ 310mln. The average interest rate for JSL has increased to around 12%. The debt comprises of long term loan of ₹ 1.8bln, short term loan of ₹ 2.7bln and 7% NCDs of ₹ 1.4bln. Higher interest cost impacted the profitability of the company and PAT declined by 11% to ₹ 221mln in Q2FY12.

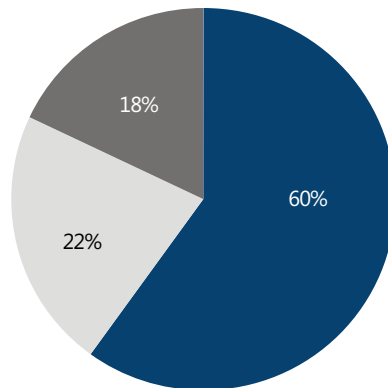
Order book stands at ₹ 43.8bln (up 3%)

JSL closed Q2FY12 with an order backlog of ₹ 43.8bln (up 3% y-o-y) with a revenue visibility of approximately 2 years. In the current order book, PGCIL's share stands at 35%; while MSEDCL and MSCTCL constitute 18%, private players such as Jaiprakash Power, Adani and Reliance Infra- 11% and the rest is contributed by other utilities of Rajasthan, DVC, Chhattisgarh, U.P, Bihar and Tamilnadu. The major part of order inflow of ₹ 5.5bln in Q2FY12 came from PGCIL.

The management is optimistic of order inflow from PGCIL improving as tenders of worth ₹ 65bln are likely to be floated in next couple of months. Sterlite Technologies' BOOT project of ₹ 14-16bln, RRVPNL's BOOT project worth ₹ 6.5bln also provide significant opportunities to JSL. JSL's scope of work comprises 15-20% of the total cost of these projects. The total business opportunity for the company in T&D space for next few quarters is almost ₹ 140bln.

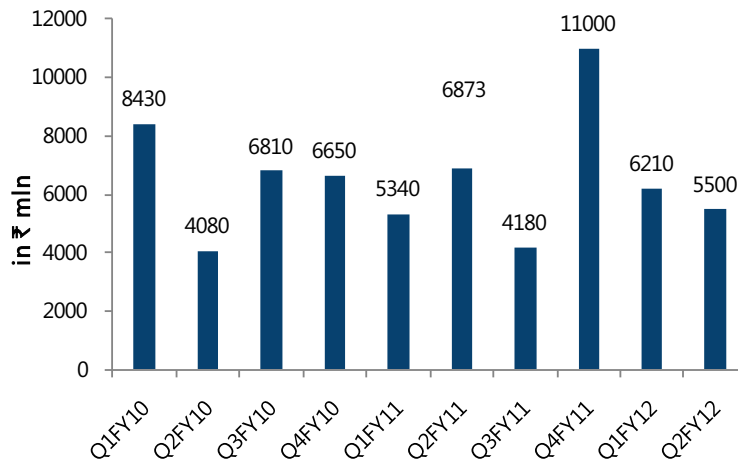
Exhibit 2: Order book break up (Q2FY12)

■ Transmission Lines ■ Sub Station ■ Rural Electrification



Source: Company, MSFL Research

Exhibit 3: Quarterly order inflow



Source: Company, MSFL Research

Outlook and Valuation

JSL's top line performance for H1FY12 has been satisfactory amidst the execution hurdles and dry order inflow for the entire T&D sector. However, we believe margin pressure and high interest cost will keep the earnings growth muted and therefore cut down our PAT estimates by 8.9% and 10.9% for FY12P and FY13P respectively. However, we remain positive on the stock considering its strong order pipeline and execution capabilities. Few concerns such as increasing working capital due to slower order inflow and increase in debtors days owing to delay in payments by SEBs (particularly Tamil Nadu and Uttar Pradesh); has led to significant de rating of JSL; which currently trades at 4.4x FY12P and 3.7x FY13P EPS. We maintain BUY with a target price of ₹ 97 based on FY13P EPS of ₹ 16.1; assigning a multiple of 6.

Financial Summary

Profit & Loss

Particulars (₹ in mln)	2009	2010	2011	2012P	2013P
Sales	17171	20131	23797	27301	29759
Total Expenditure	15211	17788	21058	24296	26407
EBIDTA	1959	2344	2739	3006	3352
EBIDTA Margin (%)	11.4	11.6	11.5	11.0	11.3
Depreciation	86	169	202	226	250
EBIT	1873	2175	2537	2780	3102
Interest cost	683	786	948	1139	1171
Operating Profit	1190	1389	1589	1640	1931
Other Income	73	55	84	68	69
PBT	1264	1444	1674	1708	2000
Tax	466	515	565	576	675
PAT	797	910	1109	1131	1325
PAT Margin (%)	4.6	4.5	4.7	4.1	4.5
EPS	9.7	11.2	13.5	13.8	16.1
Diluted EPS (warrants conversion)	7.8	9.0	10.8	11.1	13.0
Sales Growth (%)	26.4	18.7	18.2	14.7	9.0
EBITDA Growth (%)	14.0	19.6	16.9	9.7	11.5
PAT Growth (%)	10.1	15.3	20.7	2.0	17.1

Balance Sheet

Particulars (₹ in mln)	2009	2010	2011	2012P	2013P
Sources of Funds					
Share Capital	163	164	164	164	164
Reserves & Surplus	4004	4869	5853	6838	7990
Networth	4167	5033	6018	7002	8155
Secured Loans	2984	3559	4059	4909	5309
Unsecured Loans	52	46	708	708	708
Total Loans	3036	3606	4767	5617	6017
Deferred Tax Liability	82	178	180	180	180
TOTAL	7286	8816	10964	12798	14351

Application of Funds

Net Fixed Assets	1219	1716	1843	1928	1980
Investments	231	202	701	701	701
Current Assets	10999	13362	15529	17963	20025
Current Liabilities	5174	6464	7108	7793	8354
Net Current Assets	5825	6898	8421	10170	11671
Miss expenses not written off	12	-	-	-	-
TOTAL	7286	8816	10964	12798	14351

Cash Flow

Particulars (₹ in mln)	2009	2010	2011	2012P	2013P
Internal accruals	884	1175	1310	1358	1575
(Inc)/Dec in Net Current Assets	(757)	(732)	(1676)	(1411)	(901)
Other adjustments	728	746	1002	-	-
Cash flow from Operations	855	1188	637	-53	674
Inc/(Dec) in Debt	890	570	1161	850	400
Inc/(Dec) in Equity	9	5	2	-	-
Dividend & Tax	(74)	(872)	(1044)	(147)	(172)
Cash flow from Financing	40	(297)	120	703	228
Fixed Asset formation	(661)	(541)	(331)	(311)	(302)
Inc/(Dec) in Investment	(71)	-	-	-	-
Other adjustments	12	(228)	(546)	-	-
Cash flow from Investments	(720)	(769)	(877)	(311)	(302)
Net Change in Cash	175	122	(121)	338	600

Ratio

Valuation Ratio	2009	2010	2011	2012P	2013P
P/E	6.2	5.4	4.5	4.4	3.7
P/BV	1.2	1.0	0.8	0.7	0.6
EV/EBIDTA	3.9	3.5	3.5	3.3	2.9
EV/Sales	0.4	0.4	0.4	0.4	0.3
Dividend Yield (%)	1.7	1.9	2.9	3.0	3.5
EPS	9.7	11.2	13.5	13.8	16.1
DPS	1.1	1.2	1.7	1.8	2.1
Book Value	51.0	61.5	73.3	85.3	99.3
ROE %	21.0	19.8	20.1	17.4	17.5
ROCE %	18.1	17.4	17.0	15.5	15.1

Solvency Ratio (x)

Debt/Equity	0.7	0.7	0.8	0.8	0.7
Debt/EBIDTA	1.5	1.5	1.7	1.9	1.8

Turnover Ratio (x)

Asset Turnover	2.6	2.5	2.4	2.3	2.2
Fixed Asset Turnover	12.5	9.9	9.4	9.7	9.5
Current Ratio	2.1	2.1	2.2	2.3	2.4
Inventory (days)	31	41	33	34	33
Debtors (days)	161	162	169	175	173
Creditors (days)	44	41	79	69	67

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Key ratings:

Rating	Expected Return
Buy	> 15%
Accumulate	5 to 15%
Hold	-5 to 5%
Sell	< -5%
Not Rated	-

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