



Jaiprakash Associates

STOCK INFO.	BLOOMBERG
BSE SENSEX: 12,884	JPA IN
S&P CNX: 3,715	REUTERS CODE
	JAIA.BO

17 October 2006

Buy

Previous Recommendation: Buy

Rs481

Equity Shares (m)	235.4
52-Week Range	624/258
1,6,12 Rel. Perf. (%)	-4/-13/21
M.Cap. (Rs b)	113.2
M.Cap. (US\$ b)	2.5

YEAR	NET SALES	PAT	EPS*	EPS*	P/E*	P/BV	ROE	ROCE	EV/	EV/
END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
3/06A	31,410	2,670	11.3	-5.2	42.4	3.3	12.4	11.3	3.9	19.8
3/07E	38,959	5,125	21.8	91.9	22.1	3.2	15.6	15.4	3.5	13.9
3/08E	42,691	6,229	26.5	21.5	18.2	2.8	16.6	16.3	3.4	12.1

* Fully Diluted

- 2QFY07 performance in line:** During 2QFY07, Jaiprakash reported revenues of Rs7.7b (up 14.6% YoY) and EBITDA of Rs2b (up 42.4% YoY), driven largely by robust performance of the cement business. Net profit stood at Rs900m (up 4.7% YoY), in line with our estimates of Rs932m.
- Cement business surprises positively:** Cement business performance has surprised positively: revenues grew 67% YoY driven by 23% YoY volume growth (to 1.52m ton) and price increase of 36% YoY. Cement EBIT increased to Rs792/ton in 2QFY07, up from Rs669/ton in 1QFY07 and Rs242/ton in 2QFY06.
- E&C disappoints:** E&C business underperformed v/s expectations, reporting 2QFY07 revenues of Rs3.8b (down by 14.8% YoY). Revenue bookings in E&C were constrained as large projects like Karcham Wangtoo (order backlog Rs40b) and Srisailam (Rs19b) are in the ramp up phase and construction is expected to accelerate from October 2006 onwards.
- Maintain FY07 and FY08 earnings estimates:** We expect Jaiprakash to report net profit of Rs5.1b (up 92% YoY) during FY07, Rs6.2b in FY08 (up 27%) and Rs8.8b in FY09 (up 37%). Based on our SOTP methodology, we arrive at price target of Rs514/sh. At the CMP of Rs481, Jaiprakash trades at a PER of 22.1x FY07E, 18.2x FY08E and 12.9x FY09E. Adjusting for the value of BOT projects and Jaypee Greens, the stock trades at a PER of 16.2x FY07E, 13.3x FY08E and 9.4x FY09E.

QUARTERLY PERFORMANCE

									(Rs Million)	
	FY06				FY07				FY06	FY07E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Sales	8,170	6,720	7,970	8,550	8,950	7,700	9,963	12,347	31,410	38,959
Change (%)	11.6	9.1	20.4	18.8	9.5	14.6	25.0	44.4	12.1	24.0
EBITDA	1,550	1,390	1,670	1,540	2,130	1,980	2,373	3,401	6,180	9,884
Change (%)	17.4	2.7	42.7	-9.3	37.4	42.4	42.1	120.8	18.4	59.9
As of % Sales	19.0	20.7	21.0	18.0	23.8	25.7	23.8	27.5	19.7	25.4
Depreciation	370	370	380	380	380	390	410	444	1,500	1,624
Interest	650	610	670	580	590	620	660	696	2,370	2,566
Other Income	430	660	280	540	250	380	500	970	1,730	2,100
Extra-ordinary income	3,600	0	0	0	0	0	0	0	3,600	0
PBT	4,560	1,070	900	1,120	1,410	1,350	1,803	3,231	7,640	7,794
Tax	420	210	330	420	490	450	649	1,080	1,370	2,669
Effective Tax Rate (%)	9.2	19.6	36.7	37.5	34.8	33.3	36.0	33.4	17.9	34.2
Reported PAT	4,140	860	570	700	920	900	1,154	2,151	6,270	5,125
Adj PAT	540	860	570	700	920	900	1,154	2,151	2,670	5,125
Change (%)	3.8	163.4	26.7	21.3	70.4	4.7	102.4	207.3	26.6	91.9

E: MOSt Estimates

2QFY07 performance driven by superior cement earnings

During 2QFY07, Jaiprakash reported revenues of Rs7.7b (up 14.6% YoY) and EBITDA of Rs2.0b (up 42.4% YoY), driven largely by robust performance of the cement business. Net profit stood at Rs900m (up 4.7% YoY), in line with our estimates of Rs932m.

Segmentwise analysis

During 2QFY07, cement division has surprised positively: Revenues grew 67% YoY to Rs4.3b, driven largely by 36% YoY growth in realizations to Rs2,809/ton and volume growth of 23% YoY to 1.52m ton. Cement realizations improved to Rs2809/ton in 2QFY07, up from Rs2,065/ton in 2QFY06 and Rs2,600/ton in 1QFY07. Cement EBIT increased to Rs1.1b (Rs792/ton) during 2QFY07, up from Rs300m (Rs242/ton) in 2QFY06 and Rs1.1b (Rs669/ton in 1QFY07).

CEMENT DIVISION PERFORMANCE (RS M)

CEMENT	1QFY06	2QFY06	3QFY06	4QFY06	1QFY07	2QFY07
Volumes (m ton)	1.44	1.24	1.47	1.79	1.57	1.50
Revenue	3,100	2,560	3,020	4,130	4,080	4,270
Realiz. (Rs/t)	2,153	2,065	2,054	2,310	2,599	2,809
EBIT	520	300	290	760	1,050	1,140
EBIT (Rs/t)	361	242	197	425	669	750

Source: Company

E&C business underperformed v/s expectations, and reported revenues of Rs3.8b (down by 14.8% YoY) during 2QFY07, which has been the lowest since FY05. E&C EBIT declined 12.5% YoY to Rs1.1b, while EBIT margins stood at 27.6%, higher than 26.8% YoY during 2QFY06 and 20.0% during 1QFY07. Revenue bookings in E&C was constrained as work on large projects like Karcham Wangtoo (Order backlog Rs40b) and Srisailam Irrigation project in Andhra Pradesh (order backlog Rs19b) have just commenced and construction is expected to accelerate from October 2006 onwards. We thus expect revenues of E&C business to ramp up from 4QFY07 onwards, as large projects enter the construction phase. E&C order book as at September 2006 stands at Rs72b, ensuring revenue visibility over the next 3 years.

SEGMENT-WISE REVENUES (RS M)

	1QFY06	2QFY06	3QFY06	4QFY06	1QFY07	2QFY07
Cement	3,100	2,560	3,020	4,130	4,080	4,270
Construction	5,480	4,470	5,130	4,920	5,210	3,810
Hotel	50	30	30	20	50	60
Un-allocated	3,680 *	370	150	150	70	100
Total	12,310	7,430	8,330	9,220	9,410	8,240
Less: Inter-seg.	110	50	80	130	210	160
Total Sales	12,200	7,380	8,250	9,090	9,200	8,080

* Profit on sale of stake in Jaiprakash Hydro; Source: Company

SEGMENT-WISE EBIT (RS M)

	1QFY06	2QFY06	3QFY06	4QFY06	1QFY07	2QFY07
Cement	520	300	290	760	1,050	1,140
Construction	1,300	1,200	1,340	960	1,040	1,050
Hotel	20	10	-	-	20	-
Un-allocated	3,430 *	170	-	-	-	-
Total	5,270	1,680	1,630	1,720	2,110	2,190

* Profit on sale of stake in Jaiprakash Hydro Source: Company

UP Cement Corporation takeover approved

During October 2006, Jaiprakash received the consent of the High Court of Allahabad for takeover of the assets of the Uttar Pradesh Cement Corporation. The planned capacity of the plant is 2.5m ton, and the total cost (including the takeover bid) stands at Rs8.6b, including cost for setting up 60MW captive power plant. The company is hopeful of commissioning the first phase of the project by June-July 2007 and the entire capacity by March 2008. The acquisition also entails transfer of mining rights for limestone, with reserve life of 35years.

Targeted cement capacity of ~18m ton by Mar-09

Jaiprakash has outlined a roadmap to increase cement capacity to 18 m ton by March 2009 from 7m ton currently. This is being driven by: Himachal Pradesh Greenfield unit (4m ton, March 08), UP Cement acquisition (2.5m ton, March 2008), tie up with SAIL (2.5m ton, December 2008), Gujarat Angan Cement (1.2m ton, September 2008), Siddhi Cement (1.5m ton, March 2008) and possible set up in Bhutan (1m ton).

Setting up wind power to lower effective tax rate

Jaiprakash intends to set up wind power projects of 50MW at Dhule in Maharashtra and has already placed orders for plant and machinery. Of this, 25MW would be commissioned by March 2007 and another 25MW by early FY08. This

would enable the company to broadbase its power portfolio, and also reduce tax outgo due to incentives of accelerated depreciation available for wind power installation. The company is presently in the full tax bracket and therefore effective tax rate would be lower for FY07 and FY08 v/s our expectations of ~35%.

Update on progress of hydropower BOOTs

- ✍ **Vishnu Prayag (400MW):** 300MW has been commissioned and the fourth unit of 100MW is expected to be commissioned during October 2006. The company has already signed Power Purchase Agreement with Uttar Pradesh Power Corporation Ltd. entailing RoE of 16%, which will be effectively in the range of 18-22%, post efficiency related incentives.
- ✍ **Karcham Wangtoo (1,000MW)** has achieved financial closure. Jaiprakash has signed Power Purchase Agreement with PTC India for 704MW while 176MW would be on a merchant basis and 120MW would be free power to the state government. We expect ramp up in construction from 4QFY07, and the project is expected to be commissioned by December 2011.
- ✍ Jaiprakash has also signed a Memorandum of

Association for 2,100MW of hydropower in Arunachal Pradesh and is working on Detailed Feasibility Reports.

Merger with Jaypee Greens complete, fully diluted equity capital Rs2.4b

Merger with Jaypee Greens has been completed during 2QFY07, and the company has received all regulatory approvals. The merger ratio at 2:1 resulted in equity dilution of 25m shares. Thus, the share capital of Jaiprakash has increased from Rs1,786m to Rs2,167m. Further, based on outstanding FCCB conversion (at Rs559/sh), the fully diluted equity capital stands at Rs2.4b (235.4m shares). We have considered fully diluted equity capital in our EPS calculations and SOTP workings.

Maintain FY07 and FY08 earnings estimates

We expect Jaiprakash to report net profit of Rs5.1b (up 92% YoY) during FY07, Rs6.2b in FY08 (up 27%) and Rs8.8b in FY09 (up 37%). Based on SOTP methodology, we arrive at a price target of Rs514/sh. At the CMP of Rs481, Jaiprakash trades at a PER of 22.1x FY07E, 18.2x FY08E and 12.9x FY09E. Adjusting for the value of BOT projects and Jaypee Greens, the stock trades at a PER of 16.2x FY07E, 13.3x FY08E and 9.4x FY09E.

JAIPRAKASH ASSOCIATES LIMITED - SUM OF PARTS

STANDALONE BUSINESS	BUSINESS SEGMENT	METHOD	VALUATION MULTIPLE	VALUE (RS M)	VALUE (RS/SH)	RATIONALE
E&C Business	Construction	FY08 EV/EBIT	8	49,513	210	At 20% discount with Industry Average
Cement Business	Cement	EV/ton (US\$)	125	65,415	278	Valued 7MT at US\$125, 7MT proposed at US\$85
Cement (Siddhi and Guj Anajan)	Cement	Book Value		6,000	25	Based on estimated capex spent till FY07
Cash		Book Value		2,913	12	
Firm Value				123,841	526	
Debt		Book Value		33,243	141	
Equity Value				90,598	385	

Valuation of Subsidiary Companies

Jaiprakash Hydro	Hydro Power	Mkt.Price (Rs/sh)	25	7,713	33	Based on 20% discount to Current Price
Jaiprakash Power Ventures Ltd.	Hydro Power	P/BV	1.5	7,011	30	Expected RoE = 20-22%, Discount to JHPL valuation
Jaypee Karcham Hydro Corp Ltd.	Hydro Power	Book Value		6,000	25	Based on actual investment made in the project
Jaypee Greens	Real Estate	Land Value (Rs m/acre)	100	9,600	41	Land value for 86 acres (out of total 452 acres), plus Rs1b for Golf Course, etc
Total					129	
Consolidated Equity Value					514*	

* Ignoring value unlocking potential from Taj Expressway, Karcham Wangtoo (1,000MW), 1.2m ton Guj Anjan Cement, 1.5m ton Siddhi Cement, 2,100MW hydro projects in Arunachal Pradesh, Thermal power project (500MW) and development profit of Jaypee Greens

Source: Company/ Motilal Oswal Securities

Jaiprakash Associates: an investment profile

Company description

JAL is a diversified conglomerate with interests in four business segments: E&C (mainly hydro power construction), hydro-power generation, cement, and hospitality industry. It has a niche positioning in India's hydro power segment, executing contracts in 54% of hydro power capacity during the Tenth Plan (FY05-07).

Key investment arguments

- ✍ Best positioned to capture increasing hydropower investments in India.
- ✍ Cement capacity to be enhanced to 18m ton by March 2009, driven by Himachal Pradesh Greenfield unit (4m ton, March 2008), UP Cement acquisition (2.5m ton, March 2008), tie-up with SAIL (2.5m ton, December 2008), Gujarat Angan Cement (1.2m ton, September 2008) and possible acquisition in Madhya Pradesh (1m ton).
- ✍ JAL already has a hydro power BOOT portfolio of 1,700MW and has signed MoAs for 2,100MW on a BOOT basis with government of Arunachal Pradesh.

Key investment risks

- ✍ Increased competition in E&C may put pressure on operating margins
- ✍ BOT projects depresses initial RoE
- ✍ Hydropower generation is unpredictable

COMPARATIVE VALUATIONS

		JAIPR KASH	NAGAR.CON.S.	GAMMON
P/E (x)	FY07E	22.1	19.6	28.2
	FY08E	18.2	12.5	18.7
P/E (x) *	FY07E	16.2	15.7	18.3
	FY08E	13.3	10.0	12.1
P/BV (x)	FY07E	3.2	1.7	3.3
	FY08E	2.8	1.5	2.8
RoE (%)	FY07E	15.6	18.6	11.5
	FY08E	16.6	25.7	15.2

* adj for BoT and other investment

SHAREHOLDING PATTERN (%)

	SEP.06	JUN.06	SEP.05
Promoter	48.3	41.7	44.9
Domestic Inst	17.3	19.5	16.8
Foreign	19.0	19.4	18.3
Others	15.4	19.4	20.1

Recent developments

- ✍ Received court's approval for transfer of possession of UP Cement plant with installed capacity of 2.5m ton, limestone reserves for 35 years and sales tax benefits.
- ✍ Acquired Gujarat Angan Cement with mining rights for limestone with reserve for 35 years for production of 0.9-1.0m ton clinker p.a. (1.2m ton of cement capacity).
- ✍ Merger with Jaypee Greens completed in 2QFY07.
- ✍ 300MW of Vishnu Prayag has been commissioned and 100MW is due for commissioning during October 2006.

Valuations and view

- ✍ At the CMP of Rs481, Jaiprakash trades at a PER of 22.1x FY07E, 18.2x FY08E and 12.9x FY09E. Adjusting for the value of BOT projects and Jaypee Greens, the stock trades at a PER of 16.2x FY07E, 13.3x FY08E and 9.4x FY09E.
- ✍ Maintain **Buy** with SOTP price target of Rs514/sh.

Sector view

- ✍ We are positive on the prospects of increased investments in hydropower construction over the next 5 years.
- ✍ In near term, cement sector will continue to show impressive profitability but we expect softening prices post FY07 with significant increase in capacity.
- ✍ BOT ventures could unlock sizable value.

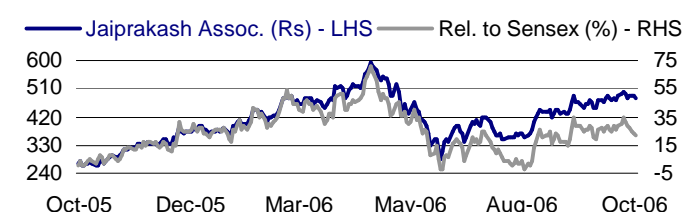
EPS: MOST FORECAST VS CONSENSUS (RS)

	MOST FORECAST	CONSENSUS FORECAST	VARIATION (%)
FY07	27.1	-	-
FY08	34.2	-	-

TARGET PRICE AND RECOMMENDATION

CURRENT PRICE (RS)	TARGET PRICE (RS)	UPSIDE (%)	RECO.
481	514	6.9	Buy

STOCK PERFORMANCE (1 YEAR)



INCOME STATEMENT		RS MILLION				
Y/E MARCH	2005	2006	2007E	2008E	2009E	
Net Sales	28,015	31,410	38,959	42,691	56,677	
Change (%)	6.0	12.1	24.0	9.6	32.8	
Cons. & Manufact. Expen.	16,871	21,201	22,478	23,596	33,197	
Employees' Remuneration and	1,003	1,203	1,444	1,733	2,079	
Selling & Distribution Expense	2,514	2,765	3,042	3,346	3,681	
Other Expenses	2,407	2,048	2,112	2,186	2,271	
Total Expenses	22,794	25,230	29,076	30,861		
EBITDA	5,221	6,180	9,884	11,830	15,450	
% of Net Sales	18.6	19.7	25.4	27.7	27.3	
Depreciation	1,333	1,500	1,624	2,072	2,803	
Interest	2,134	2,370	2,566	2,724	2,947	
Other Income	1,534	5,330	2,100	2,648	3,515	
PBT	3,288	7,640	7,794	9,681	13,215	
Tax	1,211	1,370	2,669	3,452	4,443	
Rate (%)	36.8	17.9	34.2	35.7	33.6	
Reported PAT	2,076	6,270	5,125	6,229	8,772	
Extra-ord. Inc. (net of expense)	-33	3,600	0	0	0	
Adjusted PAT	2,109	2,670	5,125	6,229	8,772	
Change (%)	-16.4	26.6	919	215	40.8	

BALANCE SHEET		RS MILLION				
Y/E MARCH	2005	2006E	2007E	2008E	2009E	
Share Capital	1,762	2,106	2,354	2,354	2,354	
Reserves	10,585	28,547	32,598	37,754	44,916	
Net Worth	12,348	30,653	34,952	40,108	47,270	
Loans	31,989	28,404	29,358	33,243	34,466	
Deferred Tax Liability	4,826	4,906	6,406	8,406	10,206	
Capital Employed	49,162	63,963	70,716	81,757	91,942	
Gross Fixed Assets	31,117	35,081	36,081	69,081	70,081	
Less: Depreciation	10,595	12,095	13,719	15,791	18,595	
Net Fixed Assets	20,522	22,986	22,362	53,289	51,486	
Capital WIP	3,964	5,500	21,600	1,000	1,000	
Investments	11,920	11,533	16,533	20,033	25,533	
Curr. Assets	25,057	38,432	27,289	26,199	38,610	
Inventory	5,997	6,712	8,326	9,123	12,112	
Debtors	3,703	4,414	5,149	5,642	7,491	
Cash & Bank Balance	7,272	19,284	5,593	2,913	10,186	
Loans & Advances	8,064	8,000	8,200	8,500	8,800	
Other Current Assets	22	22	22	22	22	
Current Liab. & Prov.	12,324	14,487	17,067	18,765	24,687	
Creditors	4,079	5,228	5,543	5,818	8,185	
Other Liabilities	6,921	7,759	9,624	10,546	14,002	
Provisions	1,325	1,500	1,900	2,400	2,500	
Net Current Assets	12,733	23,944	10,222	7,435	13,923	
Misc. Expenses	25	0	0	0	0	
Application of Funds	49,162	63,963	70,716	81,757	91,942	

E: MOST Estimates

RATIOS		2005	2006E	2007E	2008E	2009E
Y/E MARCH						
Basic (Rs)						
Adjusted EPS		12.0	11.3	21.8	26.5	37.3
Growth (%)		-16.4	-5.2	91.9	21.5	40.8
Consolidated EPS		11.9	13.7	27.1	34.2	45.1
Growth (%)		-18.6	15.1	97.6	26.2	31.8
Cash EPS		19.5	19.8	28.7	35.3	49.2
Book Value		69.4	145.6	148.5	170.4	200.8
DPS		2.4	5.0	4.0	4.0	6.0
Payout (incl. Div. Tax.)		23.2	19.1	20.9	17.2	18.4
Valuation (x)						
P/E (standalone)			42.4	22.1	18.2	12.9
P/E (consolidated)			35.1	17.7	14.1	10.7
Cash P/E			24.3	16.8	13.6	9.8
EV/EBITDA			19.8	13.9	12.1	8.9
EV/Sales			3.9	3.5	3.4	2.4
Price/Book Value			3.3	3.2	2.8	2.4
Dividend Yield (%)			1.0	0.8	0.8	1.2
Profitability Ratios (%)						
RoE		18.3	12.4	15.6	16.6	20.1
RoCE		12.9	11.3	15.4	16.3	18.6
Turnover Ratios						
Debtors (Days)		48	48	48	48	48
Asset Turnover (x)		0.7	0.6	0.6	0.6	0.7
Leverage Ratio						
Debt/Equity (x)		2.6	0.9	0.8	0.8	0.7

CASH FLOW STATEMENT

Y/E MARCH	2005	2006E	2007E	2008E	2009E
PBT before Extraordinary Item	3,288	7,640	7,794	9,681	13,215
Add : Depreciation	1,333	1,500	1,624	2,072	2,803
Interest	2,134	2,370	2,566	2,724	2,947
Less : Direct Taxes Paid	1,211	1,370	2,669	3,452	4,443
(Inc)/Dec in WC	-3,010	800	32	107	785
CF from Operations	2,534	10,940	9,346	11,132	15,307
(Inc)/Dec in FA	-3,131	-5,500	-17,100	-12,400	-1,000
(Pur)/Sale of Investments	-4,377	387	-5,000	-3,500	-5,500
CF from Investments	-7,508	-5,113	-22,100	-15,900	-6,500
(Inc)/Dec in Networth	809	13,340	1,748	2,000	1,800
(Inc)/Dec in Debt	11,826	-3,585	954	3,885	1,223
Less : Interest Paid	2,134	2,370	2,566	2,724	2,947
Dividend Paid	482	1,200	1,073	1,073	1,610
CF from Fin. Activity	10,019	6,185	-937	2,088	-1,534
Inc/Dec of Cash	5,044	12,012	-13,691	-2,680	7,273
Add: Beginning Balance	2,228	7,272	19,284	5,593	2,913
Closing Balance	7,272	19,284	5,593	2,913	10,186

For more copies or other information, contact

Institutional: Navin Agarwal. **Retail:** Manish Shah, Mihir Kothari

Phone: (91-22) 39825500 Fax: (91-22) 22885038. E-mail: inquire@motilaloswal.com

Motilal Oswal Securities Ltd, 3rd Floor, Hoechst House, Nariman Point, Mumbai 400 021

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Jaiprakash Associates

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2. Group/Directors ownership of the stock	No
3. Broking relationship with company covered	No
4. Investment Banking relationship with company covered	No

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