

22 October 2008

**BUY**

Price Target Price  
**Rs79 Rs105**

Sensex **10,683**

**Price Performance**

(%)	1M	3M	6M	12M
Absolute	(42)	(53)	(68)	(63)
Rel. to Sensex	(24)	(39)	(50)	(39)

Source: Capitaline

**Stock Details**

Sector	Construction
Reuters	JAIA.BO
Bloomberg	JPA@IN
Equity Capital (Rs mn)	2348
Face Value (Rs)	2
No of shares o/s (mn)	1174
52 Week H/L (Rs)	510/65
Market Cap (Rs bn/USD mn)	92/1,874
Daily Avg Vol (No of shares)	16937402
Daily Avg Turnover (US\$ mn)	47.2

**Shareholding Pattern (%)**

	S'08	J'08	M'08
Promoters	44.4	44.5	44.6
FII/NRI	23.7	26.8	28.0
Institutions	13.0	11.6	11.8
Private Corp	6.8	5.9	5.0
Public	12.0	11.2	10.7

Source: Capitaline

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# Jaiprakash Associates

## Q22009 results - Results ahead of expectation

Result  
Update

JPA's Q22009 net profit at Rs 2.03 bn is sharply above our expectation of Rs1.21 bn, primarily because of higher revenue booking and margins in the construction division and higher dividend from its subsidiary Jaiprakash Power Ventures Ltd. The topline grew by 37% yoy, driven by 14% growth in revenues of cement division and 52% growth in revenues of construction division. Operating profit at Rs3.47 bn grew at a healthy pace of 57%, driven by a sharp 136% growth in EBIT of the construction division and Rs100 mn EBIT of real estate division. Dividends from its Subsidiary Jaiprakash Power Ventures Ltd significantly boosted the net profit; even adjusting this dividend the profits grew 33% for the quarter. We maintain our earnings estimates of Rs6.4 for FY2009 and Rs8.7 for FY2010. However in line with severe deterioration in market multiples of cement, construction, power and realty stocks, we cut our target multiples for JPA and arrive at revised target of Rs105 per share of JPA (as compared to Rs240 earlier). JPA stock is currently trading at 12.4X its FY2009 earnings and 9X its FY2010 earnings and we believe the stock provides compelling value proposition at these levels. Maintain our BUY recommendation on the stock with a price target of Rs105.

**Impressive performance**

- JPA's Q22009 net profit at Rs 2.03 bn is sharply above our expectation of Rs1.21 bn, primarily because of higher revenue booking and margins in the construction division and higher dividend from its subsidiary Jaiprakash Power Ventures Ltd.
- The topline for the quarter stood at Rs11.48 bn a growth of 37% yoy, driven by 14% growth in revenues of cement division and 52% growth in revenues of construction division.
- The operating profit at Rs3.47 bn grew at a healthy pace of 57%, driven by a sharp 136% growth in EBIT of the construction division and Rs100 mn EBIT of real estate division (Real estate revenues were not there in Q22008).
- Under the pressure of mounting coal and other raw material prices, the cement division reported an EBIT decline of 3.2% as its EBIT margins declined 590 bps to 25.2%.
- Construction division continued its good performance where the division reported 136% growth in its EBIT on the back of 1100 bps expansion in its EBIT margin. The good performance is on the back of high value work executed in the Taj Expressway, Karchamwantoo Hydro power & Srisailam canal project.
- Interest and depreciation charges for the quarter grew by 20% and 45% respectively as JPA commissioned cement unit at Dalla & Chunar.
- Other income for the quarter increased sharply by 73% on account of Rs648.6 million of dividends from its Subsidiary Jaiprakash Power Ventures Ltd. This boosted the net profit to Rs2.03 bn i.e. growth of 95% yoy. Even after entirely adjusting this dividend income net profit for the quarter has grown at 33% yoy.
- JPA's board has approved a rights issue of Rs18 bn and have dropped plans of allotting 120 million warrant to Jaypee Ventures ( a promoter Group company) on preferential basis. Also during the quarter promoters have subscribed to 10 million warrants out of the 50 million warrants issued to them on January 2008 @ Rs397 per warrant.

## Result Table

Rs million	2Q08	Q209	Change
<b>Net sales</b>	<b>8,620</b>	<b>11,826</b>	<b>37%</b>
<b>Total expenditure</b>	<b>6,410</b>	<b>8,348</b>	<b>30%</b>
(increase) / Decrease in stock in Trade	-440	-548.3	
Direct construction , manufacturing and hotel expenses	4,660	6522.6	
Staff costs	580	760.1	
Other expenditure	1,610	1613.4	
<b>Operating Profit</b>	<b>2,210</b>	<b>3,478</b>	<b>57%</b>
Other income	600	<b>1,040</b>	<b>73%</b>
PBIDT	2,810	<b>4,519</b>	<b>61%</b>
Interest	840	<b>1,008</b>	<b>20%</b>
PBDT	1,970	<b>3,510</b>	<b>78%</b>
Depreciation	460	<b>667</b>	<b>45%</b>
<b>PBT</b>	<b>1,510</b>	<b>2,844</b>	<b>88%</b>
<b>Tax</b>	<b>470</b>	<b>812</b>	<b>73%</b>
Current tax	320	645.1	
Deferred tax	130	149.8	
Fringe benefits	20	17.5	
<b>Net profit</b>	<b>1,040</b>	<b>2,031</b>	<b>95%</b>
<b>Margins</b>			
OPMs	25.60%	29.40%	3.80%
PBT	17.50%	24.00%	
PAT	12.10%	17.20%	
Tax rate	31.10%	28.60%	

## Segment Results

Segment revenue	Q109A	Q209	Change
Cement & Cement Products	4,560	5208.8	<b>14%</b>
Construction	4,320	6584.1	<b>52%</b>
Hydro Electric & Wind Power	30	143.9	<b>380%</b>
Investments	240	648.6	<b>170%</b>
Hotel/Hospitality & Golf course	70	55.8	<b>-20%</b>
Real Estate		265	<b>#DIV/0!</b>
Un-allocated	200	209.3	<b>5%</b>
<b>Total</b>	<b>9,420</b>	<b>13,116</b>	
Intersegment revenue	200	249	
<b>Total sales / Income from operations</b>	<b>9,220</b>	<b>12,866</b>	
<b>Segment EBIT</b>			
Cement & Cement Products	1,420	1315	<b>-7%</b>
Construction	870	2055.4	<b>136%</b>
Hydro Electric & Wind Power	20	108.1	<b>441%</b>
Investments	240	648.6	<b>170%</b>
Hotel/Hospitality & Golf course	-10	-12.2	<b>22%</b>
Real Estate		100	
Unallocated			
<b>Total</b>	<b>2,540</b>	<b>4215</b>	
<b>EBIT Margin (%)</b>			
Cement & Cement Products	31.10%	25.20%	
Construction	20.10%	31.20%	
Hydro Electric & Wind Power	66.70%	75.10%	
Investments	100.00%	100.00%	
Hotel/Hospitality & Golf course	-14.30%	-21.90%	
Real Estate		37.70%	

Cement Business Details	Q109A	Q209	Change
Sales volume (Million Tonne)	1.48	1.64	11%
Realisation (Rs/Ton)	3,075	3,173	3%
Sales (Rs mn)	4,560	5,209	14%
EBIT (Rs mn)	1,420	1,315	-7%
EBIT(%)	31.10%	25.20%	
EBIT/Ton	958	801	-16%
Op Cost /Ton	2,117	2,372	12%

### Maintain Earnings - Downgrade Price target

We maintain our earnings estimates of Rs6.4 for FY2009 and Rs8.7 for FY2010. However in line with severe deterioration in market multiples of cement, construction, power and realty stocks, we cut our target multiples for JPA. We now value JPA cement business at EV/EBIDTA multiple of 3.7X i.e. a 10% discount to our target multiple for Ultratech Cement. The construction business is valued at 4X EV/EBIDTA (65% discount to our target multiple for L&T's construction business). We have valued the Taj expressway project at 75% discount to our NAV for the project. Our NAV for Taj Expressway is based on development of Noida land and saleable value of the balance parcel of 5000 acres. We have also increased of the discount rate for the project from earlier 16% to 18% currently to take into consideration higher risks associated with delay in development of Noida land. The revised SOTP comes out to Rs105 per share of JPA.

### JPA fair value at Rs105

Rs million	Valuation Measure	Multiple	Value	Value/Share	Comment
Cement Business	EV/EBIDTA	3.7	46990	40	110% discount to our multiple for Ultratech
Construction Business	EV/EBIDTA	4	16213	14	65% discount to our multiple for L&T
Jaypee Greens	NAV	75% Disc	3489	3	In line with discounts commanded by realty stocks
Taj Expressway	NAV & Land sale	75% Disc	20452	17	
<b>Power</b>					
Jaiprakash Hydro Power	NPV	NPV	19147	16	14% COE (ROE= 14%)
Jaiprakash Power Ventures	NPV	NPV	20969	18	14% COE (ROE= 14%)
Jaiprakash karcham Hydro Corp	NPV	NPV	40773	34	16% COE (ROE= 14%)
Thermal Power at Churk	P/B	0.5	3300	3	0.5X Book Value
Jaypee Power Grid	P/B	0.5	1088	1	0.5X Book Value
MP Thermal Power plant	P/B	0.5	4200	4	0.5X Book Value
Jaypee Hotels	CMP(Pro-rata stake)		2455	2	Current Price
Malvika Steel	P/B	0	0	0	
<b>Total Enterprise Value</b>			<b>179074</b>	<b>151</b>	
<b>Less:</b>					
<b>Net Debt</b>			<b>53872</b>	<b>45</b>	
<b>Target Market Capitalisation</b>			<b>125202</b>	<b>105</b>	

## Valuation and view

JPA stock is currently trading at 12.4X its FY2009 earnings and 9X its FY2010 earnings. JPA stock has witnessed significant correction in the ongoing market slump and we think the stock had more than its due share of pain. We believe the stock provides compelling value proposition at these levels. Maintain our BUY recommendation on the stock with a price target of Rs105.

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