

Jaiprakash Associates Ltd

Rs671

OUTPERFORMER**RESULT NOTE****Mkt Cap: Rs146.8bn; US\$3.6bn**

Analyst: Shirish Rane (91-22-6638 3313; shirish@sski.co.in)
 Bhoomika Nair (91-22-6638 3337; bhoomika@sski.co.in)
 Salil Desai (91-22-6638 3373; salil@sski.co.in)

Result: Q4FY07**Comment:** Ahead of estimates - strong operating performance led by higher cement realizations**Last report:** 11 January 2007 (Price Rs707; Recommendation: Outperformer)**Key consolidated valuation metrics**

Year to March (Rs mn)	Sales	chg yoy (%)	Net Profit	EPS (Rs)	chg yoy (%)	PER (x)
2005	31,376	20	2,607	14.8	21	45.3
2006	35,560	13	3,095	16.3	10	41.2
2007P	37,960	7	5,730	26.2	61	25.6
2008E	45,420	20	6,662	30.4	16	22.0
2009E	55,244	22	7,266	33.2	9	20.2

Jaiprakash Associates Ltd's (JAL) standalone net profit was marginally higher than our estimates at Rs1.3bn (+87% yoy) led by a strong performance of the cement division. The cement revenues grew by 46% yoy (33% yoy realization growth), which led to a sharp jump in EBIT margins by 1660bps to 35% during the quarter. The construction business revenues fell by 34% as most of the projects were in the ramp up phase during the quarter. Consequently, overall operating margins expanded by 1170bps to 29.7% during the quarter. The stock is trading at 25.2x FY09 standalone earnings and at 20.2x FY09E on consolidated earnings, which is attractive considering the robust order backlog of Rs67.5bn for the construction business, firm cement prices across its key markets as well as huge land bank from the Jaypee Green and Taj Expressway project. We retain our Outperformer rating on the stock with a target price of Rs836/share based on sum of parts valuation.

RESULT HIGHLIGHTS**□ Net revenues grew by 3.6% yoy to Rs8.86bn**

The cement volumes grew by 9% yoy to 1.95 million tons in 4QFY07 on the back of strong demand in the northern region especially Uttar Pradesh, a key market for JAL. The net realisations improved by 33% yoy Rs3,095/ton during the quarter led by sharp jump in cement prices in the northern region. As a result, cement revenues grew at a robust pace of 46% yoy to Rs6.02bn.

On the other hand, the construction revenues fell by 34% yoy to Rs3.3bn as new projects were in the ramp up phase, while the old projects were close to completion during the quarter. Moreover, the AP irrigation project has not yet picked up as the tunnel boring machine to be used for the project is likely to be delivered on site only by June end. The construction order backlog is Rs67.5bn as on 31st March 2007.

Overall, net revenues grew by 3.6% yoy to Rs8.86bn during the quarter. On the other hand, FY07 revenues grew by 9.6% yoy to Rs34.4bn led by 51% growth in cement revenues and 17% fall in construction revenues.

Visit <http://deadpresident.blogspot.com> for more reports!

Cement division performance

	1QFY06	2Q06	3Q06	4QFY06	FY06	1Q FY07	2QFY07	3QFY07	4QFY07	FY07
Volumes (mn tons)	1.44	1.24	1.47	1.78	5.93	1.57	1.53	1.71	1.95	6.75
Realisations (Rs/ton)	2,151	2,065	2,061	2,320	2,162	2,599	2,800	2,895	3,095	2,861
Cost (Rs/ton)	1,645	1,653	1,720	1,775	1,809	1,796	1,974	1,930	1,933	1,908
EBITDA (Rs/ton)	507	411	341	545	353	803	826	965	1,162	952
yoy growth (%)										
Volumes (mn tons)	23	15	16	17	18	9	23	17	9	14
Realisations (Rs/ton)	2	0	11	5	5	21	36	40	33	32
Cost (Rs/ton)	(3)	(7)	14	(1)	1	9	19	12	9	5
EBITDA (Rs/ton)	21	43	0	31	25	58	101	183	113	170

Source: Company, SSKI Research

□ Operating margins jump by 1170bps to 29.7%

Jaiprakash's overall operating margins improved sharply by 1170bps to 29.7% during the quarter mainly due to sharp jump in cement EBIT margins by 1660bps yoy to 35% led by strong realizations and cement volumes during the quarter. However, construction division EBIT margins fell by 350bps jump in to 16% during the quarter led by sharp fall in revenues. On the other hand, FY07 operating margins improved by 660bps to 26.3% primarily due to higher cement margins.

Segmental performance

	1QFY06	2QFY06	3QFY06	4QFY06	FY06	1QFY07	2QFY07	3QFY07	4QFY07	FY07
Segment Revenues (Rs mn)										
Cement	3,100	2,560	3,020	4,130	12,810	4,080	4,270	4,950	6,020	19,320
Construction	5,480	4,470	5,130	4,920	19,890	5,206	3,810	4,300	3,250	16,566
% yoy										
Cement	25	15	30	23	23	32	67	64	46	51
Construction	6	7	10	10	7	(5)	(15)	(16)	(34)	(17)

	1QFY06	2QFY06	3QFY06	4QFY06	FY06	1QFY07	2QFY07	3QFY07	4QFY07	FY07
Segment Results (Rs mn)										
Cement	520	300	290	760	1,880	1,050	1,140	1,400	2,110	5,700
Construction	1,300	1,200	1340	960	4,720	1,040	1,050	910	520	3,520
EBIT Margins (%)										
Cement	16.8	11.7	9.6	18.4	14.7	25.7	26.7	28.3	35.0	29.5
Construction	23.7	26.8	26.1	19.5	23.7	20.0	27.6	21.2	16.0	21.2

Source: Company

- Interest expenses increased by 12% yoy to Rs650mn during the quarter, while depreciation increased by 11% yoy to Rs420mn mainly due to commissioning of 38MW captive thermal power plant in 2QFY07. Similarly, FY07 interest and depreciation costs increased by 9% each to Rs2.6bn and Rs1.6bn respectively.
- Other income during the quarter fell by 44% yoy to Rs300mn, while FY07 other income fell by 22% yoy to Rs1.4bn led by lower surplus cash on books.
- The tax provision during the quarter was 29.6% vs 37.5% in 4QFY06. On the other hand, FY07 tax provision was 33.1% against 26.8% in FY06.
- Consequently, the net profit witnessed a strong growth of 87% yoy at Rs1.3bn during the quarter and by 40% yoy to Rs4.15bn in FY07.
- Consolidated revenues grew by 7% to Rs3.8bn, while PAT grew by 61% yoy to Rs5.7bn led by strong growth in cement divisions as well as strong performance of JHPL and JPVL, which witnessed higher generation during the quarter.

Visit <http://deadpresident.blogspot.com> for more reports!

□ We maintain Outperformer rating

We are not changing our FY08 earnings estimates. The strong order backlog of Rs67.5bn coupled with sharp rise in cement prices is likely to drive JAL's consolidated earnings by 13% CAGR over FY07-09. Jaiprakash is trading at 25.2x FY09 standalone earnings and at 20.2x FY09E on consolidated earnings. The stock is trading at attractive valuations considering its strong order backlog of Rs67.5bn, higher hydel power generation as well as development of the real estate properties (Jaypee Green and Taj expressway). As a result, we maintain Outperformer rating on the stock with a sum of parts target price of Rs836/share.

Sum of parts valuation – Rs830/share

Rs mn	Valuation metric	FY09
Construction business	10x EV/EBITDA	32,850
Cement	US\$100/ton	71,400
Baspa II (JHPL)	Market Value	22,007
(% stake)		63%
Baspa II (JHPL) (Pro rata stake value)		16,610
Vishnu Prayag (JPVL)	2.5x BV	25,253
(% stake)		84%
Vishnu Prayag (JPVL) (Pro rata stake value)		21,212
Karcham Wangtoo (JKPL)	Rs10/share	18,500
(% stake)		100%
Karcham Wangtoo (JKPL) (Pro rata stake value)		18,500
Acquisition of coal mines	Book value	820
Jaypee Green value	NPV of its cashflows	18,455
Taj Expressway land	Land value - Rs70mn/acre	80,000
Total EV		259,847
Less: Consolidated Debt		76,815
Market Capitalisation		183,032
No of share (m shares)		219
Target price (Rs/share)		836

Visit <http://deadpresident.blogspot.com> for more reports!

Quarterly results

Standalone (Rs mn)	1Q06	2Q06	3Q06	4Q06	FY06	1Q07	2Q07	3Q07	4Q07	FY07
Net Sales	8,170	6,720	7,970	8,550	31,410	8,950	7,700	8,910	8,860	34,420
Total Expenditure	6,620	5,330	6,300	7,010	25,230	6,820	5,720	6,600	6,230	25,374
EBITDA	1,550	1,390	1,670	1,540	6,180	2,130	1,980	2,310	2,630	9,046
OPM (%)	19.0	20.7	21.0	18.0	19.7	23.8	25.7	25.9	29.7	26.3
Other Income	430	660	280	540	1,730	250	380	400	300	1,357
Interest	650	610	670	580	2,370	590	620	700	650	2,572
Depreciation	370	370	380	380	1,500	380	390	430	420	1,632
PBT	960	1,070	900	1,120	4,040	1,410	1,350	1,580	1,860	6,200
Tax	91	180	310	410	991	510	450	540	460	1,980
Deferred Tax	30	30	20	10	90	(20)	-	20	90	70
Tax Rate (%)	12.6	19.6	36.7	37.5	26.8	34.8	33.3	35.4	29.6	33.1
Profit After Tax	839	860	570	700	2,959	920	900	1,020	1,310	4,150
Extra-ordinary Items	3,301	-	-	-	3,311	-	-	-	-	-
Reported Profit After Tax	4,140	860	570	700	6,270	920	900	1,020	1,310	4,150
OPM (%)	19.0	20.7	21.0	18.0	19.7	23.8	25.7	25.9	29.7	26.3
NPM (%)	10.3	12.8	7.2	8.2	9.4	10.3	11.7	11.4	14.8	12.1
Other income/PBT (%)	45	62	31	48	43	18	28	25	16	22
EPS (Rs)	4.8	4.8	3.1	3.7	15.6	4.8	4.2	4.7	6.0	18.9
Cash EPS (Rs)	6.9	7.0	5.2	5.7	23.4	7.4	7.3	7.9	9.1	31.7
PER (x)	35.2	34.8	53.7	45.5	43.1	34.9	40.3	35.8	28.0	35.4
P/CEPS (x)	5.6	5.5	7.4	6.7	4.9	5.2	5.2	4.8	4.2	3.6
Yoy growth (%)										
Revenues	10	8	20	13	13	10	15	12	4	10
EBITDA	17	3	43	(11)	11	37	42	38	71	46
PBT	19	56	29	(13)	16	47	26	76	66	53
Adjusted Profit after tax	61	163	27	(28)	31	10	5	79	87	40
Reported Profit after tax	696	100	27	4	203	(78)	5	79	87	(34)

Analyst	Sector/Industry/Coverage	E-mail	Tel. +91-22-6638 3300
Pathik Gandotra	Head of Research; Banking, Strategy	pathik@sski.co.in	91-22-6638 3304
Shirish Rane	Cement, Construction, Power, Real Estate	shirish@sski.co.in	91-22-6638 3313
Nikhil Vora	FMCG, Media, Retailing, Mid Caps	nikhilvora@sski.co.in	91-22-6638 3308
Ramnath S	Automobiles, Auto ancillaries	ramnaths@sski.co.in	91-22-6638 3380
Nitin Agarwal	Pharmaceuticals	nitinagarwal@sski.co.in	91-22-6638 3395
Ganesh Duvvuri	IT Services, Telecom	ganesh@sski.co.in	91-22-6638 3358
Varatharajan S	Oil & Gas, Engineering	varatharajan@sski.co.in	91-22-6638 3240
Chirag Shah	Textiles, Metals, Real Estate	chiragshah@sski.co.in	91-22-6638 3306
Bhoomika Nair	Construction, Power, Logistics	bhoomika@sski.co.in	91-22-6638 3337
Avishek Datta	Oil & Gas, Engineering	avishek@sski.co.in	91-22-6638 3217
Bhushan Gajaria	FMCG, Retailing, Media	bhushangajaria@sski.co.in	91-22-6638 3367
Shreyash Devalkar	IT Services, Telecom	shreyashdevalkar@sski.co.in	91-22-6638 3311
Nilesh Parikh, CFA	Banking	nilesh@sski.co.in	91-22-6638 3325
Veekesh Gandhi	Banking	veekesh@sski.co.in	91-22-6638 3231
Ashish Shah	Automobiles, Auto ancillaries	ashishshah@sski.co.in	91-22-6638 3371
Salil Desai	Cement, Infrastructure	salil@sski.co.in	91-22-6638 3373
Rahul Narayan	FMCG, Retailing, Media	rahulnarayan@sski.co.in	91-22-6638 3238
Suchit Sehgal	Mid Caps	suchitsehgal@sski.co.in	91-22-6638 3307
Nityam Shah	Automobiles, Auto ancillaries	nityam@sski.co.in	91-22-6638 3327
Ritesh Shah	Textiles, Metals, Real Estate	riteshshah@sski.co.in	91-22-6638 3376
Dharmendra Sahu	Database Manager	dharmendra@sski.co.in	91-22-6638 3382
Equity Sales/Dealing	Designation	E-mail	Tel. +91-22-6638 3300
Naishadh Paleja	CEO	naishadh@sski.co.in	91-22-6638 3211
GV Alankara	Head of Dealing	alankara@sski.co.in	91-22-6638 3201-210
Vishal Purohit	VP - Sales	vishalp@sski.co.in	91-22-6638 3212
Nikhil Gholani	VP - Sales	nikhilgholani@sski.co.in	91-22-6638 3363
Sanjay Panicker	VP - Sales	sanjaypanicker@sski.co.in	91-22-6638 3368
V Navin Roy	AVP - Sales	navin@sski.co.in	91-22-6638 3370
Rohan Soares	AVP - Sales	rohan@sski.co.in	91-22-6638 3310
Rishi Kohli	VP - Derivatives	rishikohli@sski.co.in	91-22-6638 3321/403
Pawan Sharma	AVP - Derivatives	pawansharma@sski.co.in	91-22-6638 3403
Dipesh Shah	AVP - Derivatives	dipeshshah@sski.co.in	91-22-6638 3403
Manohar Wadhwa	AVP - Derivatives	manohar@sski.co.in	91-22-6638 3403

Disclaimer

This document has been prepared by S S Kantilal Ishwarlal Securities Private Limited (SSKI). SSKI and its subsidiaries and associated companies are full-service, integrated investment banking, investment management and brokerage group. Our research analysts and sales persons provide important input into our investment banking activities.

This document does not constitute an offer or solicitation for the purchase or sale of any financial instrument or as an official confirmation of any transaction.

The information contained herein is from publicly available data or other sources believed to be reliable. While we would endeavor to update the information herein on reasonable basis, SSKI, its subsidiaries and associated companies, their directors and employees ("SSKI and affiliates") are under no obligation to update or keep the information current. Also, there may be regulatory, compliance, or other reasons that may prevent SSKI and affiliates from doing so.

We do not represent that information contained herein is accurate or complete and it should not be relied upon as such. This document is prepared for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. The user assumes the entire risk of any use made of this information. Each recipient of this document should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved). The investment discussed or views expressed may not be suitable for all investors.

Affiliates of SSKI may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject SSKI and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

Reports based on technical analysis centers on studying charts of a stock's price movement and trading volume, as opposed to focusing on a company's fundamentals and as such, may not match with a report on a company's fundamentals.

SSKI & affiliates may have used the information set forth herein before publication and may have positions in, may from time to time purchase or sell or may be materially interested in any of the securities mentioned or related securities. SSKI and affiliates may from time to time solicit from, or perform investment banking, or other services for, any company mentioned herein. Without limiting any of the foregoing, in no event shall SSKI, any of its affiliates or any third party involved in, or related to, computing or compiling the information have any liability for any damages of any kind. Any comments or statements made herein are those of the analyst and do not necessarily reflect those of SSKI and affiliates.

This Document is subject to changes without prior notice and is intended only for the person or entity to which it is addressed to and may contain confidential and/or privileged material and is not for any type of circulation. Any review, retransmission, or any other use is prohibited.

Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. SSKI will not treat recipients as customers by virtue of their receiving this report.

Explanation of Ratings:

1. Outperformer: More than 10% to Index
2. Neutral: Within 0-10% to Index
3. Underperformer: Less than 10% to Index

Disclosure of interest:

1. SSKI and its affiliates have not received compensation from the company covered herein in the past twelve months for Issue Management, Capital Structure, Mergers & Acquisitions, Buyback of shares and Other corporate advisory services.
2. Affiliates of SSKI are currently not having any mandate from the subject company.
3. SSKI and its affiliates do not hold paid up capital of the company.
4. The Equity Analyst and his/her relatives/dependents hold no shares of the company covered as on the date of publication of research on the subject company.