

Mid Cap  
 Electrical Equipment  
 Equity – India

## Overweight (V)

Target price (INR)	254.00
Share price (INR)	185.30
Potential total return (%)	37.1

Performance	1M	3M	12M
Absolute (%)	-12.6	-6.5	93.5
Relative <sup>A</sup> (%)	-5.7	-7.3	53.8

Index<sup>A</sup> BOMBAY SE IDX

RIC JYTS.BO  
 Bloomberg JYS IN

Market cap (USDm) 364  
 Market cap (INRm) 14,953

Enterprise value (INRm) 16222  
 Free float (%) 75.15

Note: (V) = volatile (please see disclosure appendix)

# Jyoti Structures Ltd

Raising target price; upgrade to Overweight (V)

- ▶ **The stock has corrected c10% in last week of trading which provides opportunity to buy**
- ▶ **We are positive on the stock based on strong order backlog and sales growth with improving margins**
- ▶ **We increase our target price to INR254 and upgrade the stock to Overweight (V)**

## Opportunity to buy

The weakness in Indian stock market was reflected in Jyoti Structures' stock performance as well. The stock corrected c10% in last week's trading. We believe that this fall should be taken as an opportunity to buy the stock. We are positive on the stock, because of the following reasons.

- ▶ Strong order backlog of INR23bn which is 2.3x of FY07 sales
- ▶ Based on current order backlog and buoyancy in the power transmission line sector we expect sales CAGR of 30% for the period of FY07-FY10e
- ▶ We expect EBITDA margin to improve on improved execution and expect EPS CAGR of 35% for the period
- ▶ Q1 FY08 results confirms our forecast with sales growth of 34% and EPS growth of 49% y-o-y due to improvement in EBITDA margins

## Upgrade to Overweight (V) with a new target price of INR254

We have used a combination of a DCF approach and PE multiple approach to determine our target price. Our new target price – INR254 – is the mid-point of our DCF fair value INR201 and PE multiple based fair value of INR307. This target price is higher than our earlier target price of INR220 as we roll over our valuation from Mar-08e to June-08e for the 12-month target price. The stock has a potential upside of 37.1%; we therefore upgrade the rating from Neutral (V) to Overweight (V).

22 August 2007

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## Valuation

We have used a combination of a DCF approach and PE multiple approach to determine our target price.

### DCF approach

We have used three-stage DCF to value Jyoti Structures. We have assumed Cost of Capital to be 12.3%. We have an explicit period starting from FY08e until FY10e. We use a semi-explicit period of 10 years starting from FY11e. We have assumed fade period to start in FY19e and to last for 10 years. During the fade period we assume RoIC will converge with Cost of Capital. Our DCF based fair value for June-08e is INR201. The increased fair value is higher than our earlier fair value of INR180 as we move to June-08e.

DCF Drivers					
	2008e	2009e	2010e	over 20 years	2031e
Asset Turn. (x)	3.30	3.49	4.19	fading to	3.00
Pre-tax margin	10.7%	11.5%	11.6%	fading to	6.3%
Tax effect	34.8%	35.0%	35.0%	fading to	35.0%
ROIC	23.0%	26.2%	31.5%	fading to	12.3%
Cost of capital	12.3%	12.3%	12.3%	fading to	12.3%
Turnover growth	na	26.4%	25.0%	fading to	1.3%
IC growth	19.8%	4.2%	8.3%	fading to	5.0%
ROIC - Cost of Capital	10.7%	13.9%	19.2%	fading to	0.0%

Source: HSBC

### PE valuation

We have arrived at target PE of 23x based on an analysis of the stock's historical trading pattern.

Over the last two years, Jyoti Structures has traded in the range of 15-25x its one year rolling forward PE multiple. There was a spike in this period, followed by a correction in the Indian stock market.

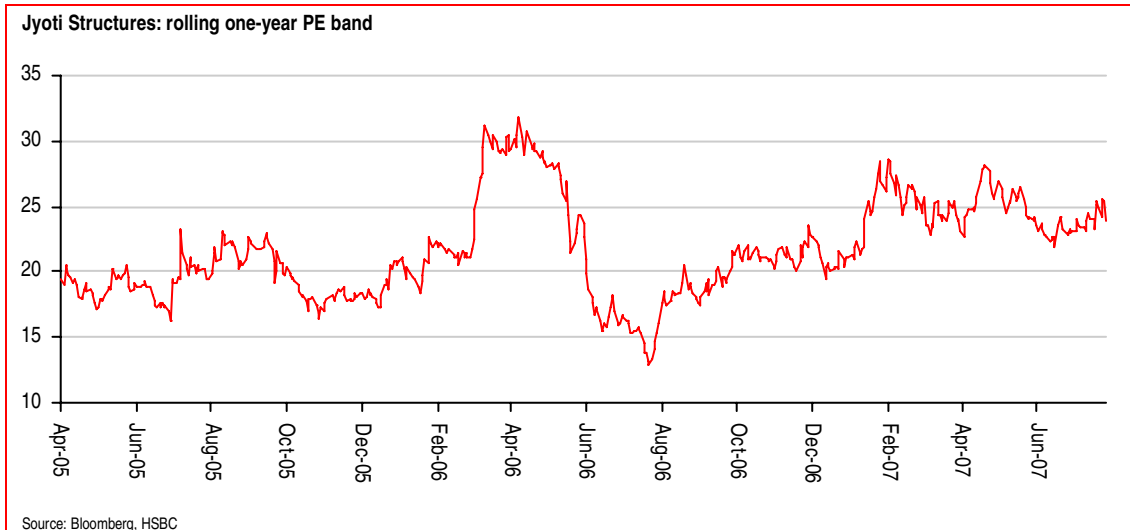
Compared to the CNX Midcap Index, Jyoti Structures largely traded at a premium. During the last few months it has been trading in the band of 20-25x.

We believe that Jyoti Structures at its current stage of growth should trade at a PE multiple of 23x, which provides us with a PE based fair value of INR307 based on our June-08e EPS estimate which is higher than our earlier PE based fair value of INR260.

### Upgrade to Overweight (V) with target price of INR254

Our new target price – INR254 – is the mid-point of our DCF fair value INR201 and PE multiple based fair value of INR307. This target price is higher than our earlier target price of INR220 as we roll over our valuation from Mar-08e to June-08e for 12-month target price.

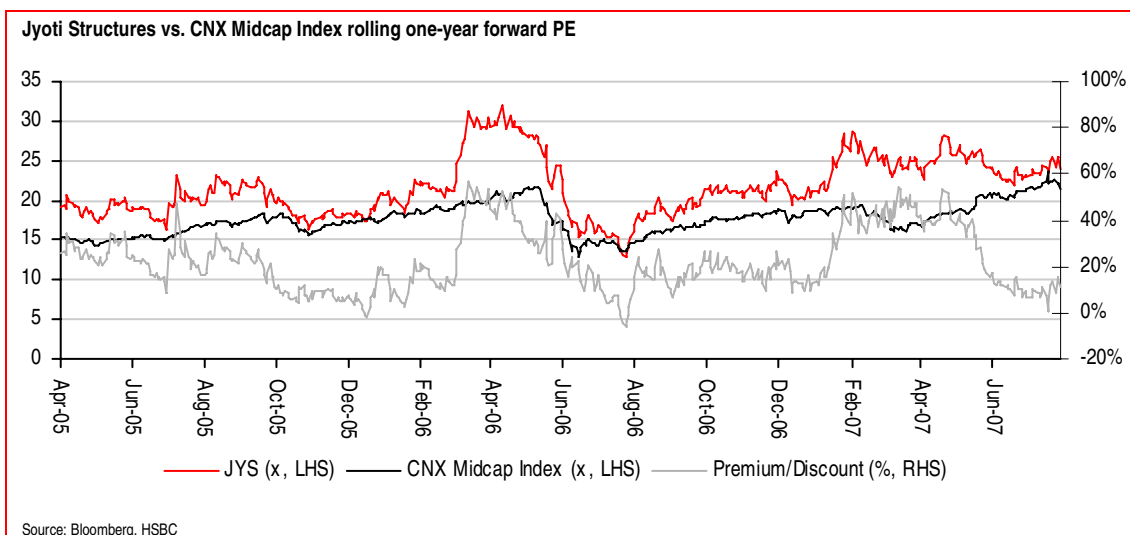
Jyoti Structures is classified as a volatile stock in our rating system, meaning that if the returns are higher than 21.3% it would be classified as Overweight. It has potential upside of 37.1%; we therefore upgrade rating from Neutral (V) to Overweight (V).



## Risks

The key risks to our valuation are:

- ▶ Slowdown in the economy, which might affect order flow
- ▶ Slow execution of orders, which would affect sales booking
- ▶ Raw material price (steel) price movement might have an impact on net profit margin
- ▶ Slow execution of capex plans
- ▶ Higher than anticipated working capital requirement, which would increase interest cost
- ▶ Dilution of equity



## Financials & valuation

### Financial statements

Year to	03/2007a	03/2008e	03/2009e	03/2010e
<b>Profit &amp; loss summary (INRm)</b>				
Revenue	10,258	14,309	18,092	22,615
EBITDA	1,262	1,857	2,447	3,010
Depreciation & amortisation	-58	-65	-71	-77
Operating profit/EBIT	1,204	1,793	2,376	2,933
Net interest	-329	-329	-361	-393
PBT	875	1,464	2,015	2,540
HSBC PBT	0	0	0	0
Taxation	-326	-510	-705	-889
Net profit	549	954	1,310	1,651
HSBC net profit	549	954	1,310	1,651

### Cash flow summary (INRm)

Cash flow from operations	-393	477	1,555	1,697
Capex	-115	-100	-100	-100
Cash flow from investment	-101	-100	-100	-100
Dividends	-48	-84	-116	-146
Change in net debt	-69	-48	-1,094	-1,205
FCF equity	-906	48	1,094	1,205

### Balance sheet summary (INRm)

Intangible fixed assets	0	0	0	0
Tangible fixed assets	563	599	628	650
Current assets	6,461	8,420	10,677	13,474
Cash & others	92	141	1,235	2,439
Total assets	7,233	9,227	11,514	14,333
Operating liabilities	2,606	3,695	4,672	5,840
Gross debt	1,595	1,595	1,595	1,595
Net debt	1,503	1,454	360	-844
Shareholders funds	2,758	3,712	5,023	6,674
Invested capital	4,325	5,183	5,398	5,845

### Ratio, growth and per share analysis

Year to	03/2007a	03/2008e	03/2009e	03/2010e
<b>Y-o-y % change</b>				
Revenue	38.6	39.5	26.4	25.0
EBITDA	64.2	47.2	31.7	23.0
Operating profit	67.1	48.9	32.5	23.5
PBT	89.4	67.3	37.6	26.1
HSBC EPS	83.9	63.1	37.3	26.1

### Ratios (%)

Revenue/IC (x)	2.9	3.0	3.4	4.0
ROIC	21.1	24.6	29.2	33.9
ROE	27.6	29.5	30.0	28.2
ROA	11.8	14.2	14.9	14.8
EBITDA margin	12.3	13.0	13.5	13.3
Operating profit margin	11.7	12.5	13.1	13.0
EBITDA/net interest (x)	3.8	5.6	6.8	7.7
Net debt/equity	54.5	39.2	7.2	-12.6
Net debt/EBITDA (x)	1.2	0.8	0.1	-0.3
CF from operations/net debt		32.8	431.4	

### Per share data (INR)

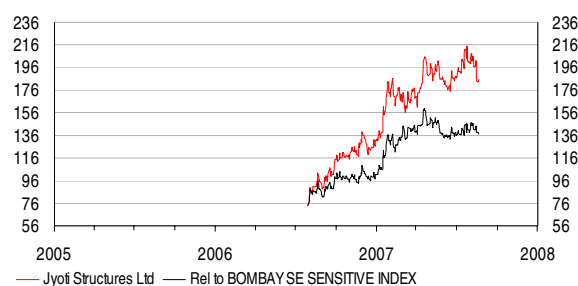
EPS reported (fully diluted)	7.06	11.51	15.81	19.93
HSBC EPS (fully diluted)	7.06	11.51	15.81	19.93
DPS	0.60	1.05	1.44	1.81
NAV	34.18	46.20	62.51	83.06

### Valuation data

Year to	03/2007a	03/2008e	03/2009e	03/2010e
EV/sales	1.6	1.1	0.8	0.6
EV/EBITDA	12.9	8.7	6.2	4.6
EV/IC	3.8	3.1	2.8	2.4
PE*	26.3	16.1	11.7	9.3
P/NAV	5.4	4.0	3.0	2.2
FCF yield (%)	-6.1	0.3	7.4	8.2
Dividend yield (%)	0.3	0.6	0.8	1.0

Note: \* = Based on HSBC EPS (fully diluted)

### Price relative



Source: HSBC

Note: price at close of 20 Aug 2007

# Disclosure appendix

## Analyst certification

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This report addresses only the long-term investment opportunities of the companies referred to in the report. As and when HSBC publishes a short-term trading idea the stocks to which these relate are identified on the website at [www.hsbcnet.com/research](http://www.hsbcnet.com/research). Details of these short-term investment opportunities can be found under the Reports section of this website.

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## Rating definitions for long-term investment opportunities

### Stock ratings

HSBC assigns ratings to its stocks in this sector on the following basis:

For each stock we set a required rate of return calculated from the risk free rate for that stock's domestic, or as appropriate, regional market and the relevant equity risk premium established by our strategy team. The price target for a stock represents the value the analyst expects the stock to reach over our performance horizon. The performance horizon is 12 months. For a stock to be classified as Overweight, the implied return must exceed the required return by at least 5 percentage points over the next 12 months (or 10 percentage points for a stock classified as Volatile\*). For a stock to be classified as Underweight, the stock must be expected to underperform its required return by at least 5 percentage points over the next 12 months (or 10 percentage points for a stock classified as Volatile\*). Stocks between these bands are classified as Neutral.

Our ratings are re-calibrated against these bands at the time of any 'material change' (initiation of coverage, change of volatility status or change in price target). Notwithstanding this, and although ratings are subject to ongoing management review, expected returns will be permitted to move outside the bands as a result of normal share price fluctuations without necessarily triggering a rating change.

\*A stock will be classified as volatile if its historical volatility has exceeded 40%, if the stock has been listed for less than 12 months (unless it is in an industry or sector where volatility is low) or if the analyst expects significant volatility. However, stocks which we do not consider volatile may in fact also behave in such a way. Historical volatility is defined as the past

month's average of the daily 365-day moving average volatilities. In order to avoid misleadingly frequent changes in rating, however, volatility has to move 2.5 percentage points past the 40% benchmark in either direction for a stock's status to change.

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## Rating distribution for long-term investment opportunities

**As of 21 August 2007, the distribution of all ratings published is as follows:**

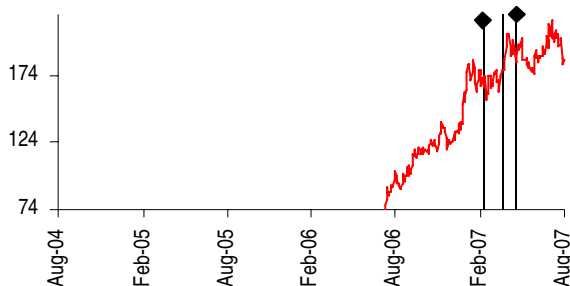
**Overweight (Buy)** 46% (24% of these provided with Investment Banking Services)

**Neutral (Hold)** 35% (24% of these provided with Investment Banking Services)

**Underweight (Sell)** 19% (18% of these provided with Investment Banking Services)

## Share price and rating changes for long-term investment opportunities

Jyoti Structures Ltd Share Price performance INR Vs HSBC rating history



Source: HSBC

Recommendation & price target history

From	To	Date
N/A	Neutral	26 February 2007
Neutral	Overweight	09 April 2007
Overweight	Neutral	08 May 2007
Target Price	Value	Date
Price 1	215.00	26 February 2007
Price 2	220.00	08 May 2007

Source: HSBC

## HSBC & Analyst disclosures

None of the below disclosures applies to any of the stocks featured in this report.

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- 2 All market data included in this report are dated as at close 20 August 2007, unless otherwise indicated in the report.
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