Company In-Depth

17 August 2007 | 18 pages

Jaiprakash (JAIA.BO)

Buy: Conglomerate on the Rise; Raising Target Price to Rs930

Rating change ☐
Target price change ☑
Estimate change ☑

- Raising target price — We raise our target price to Rs930 (from Rs674) as we (1) now value the 2nd parcel of land in Noida that JPA expects to get by Oct. '07 and (2) roll forward our target multiples on cement and construction to FY09E. We also change our FD EPS by +5% and -3% for FY08E and FY09E.

- Potential upside from Taj Expressway — Even though the entire Taj Expressway related land parcels could be worth Rs478, we think it is prudent to only include Rs285 for the two Noida parcels. We could consider including the remaining parcels when we get closer to the allocation dates or in case of a government notification to this effect. This could imply a further upside of Rs194.

- 24.1 MMTPA of cement by FY11E — We expect JPA to have cement capacity of 24.1 MMTPA by FY11E, making it one of the largest cement players in India. FY08E is likely to be the year of peak realizations and EBITDA margins in line with our view on the cement industry. JPA's rapidly expanding capacity should provide support to cement numbers when oversupply hits the markets.

- Strong E&C order pipeline — JPA's E&C division ended FY07 with an order backlog of Rs115bn (6.9x FY07 sales). Order inflow pipeline looks stronger than ever with the Rs150bn Noida real estate construction project and ~ Rs63bn of hydel projects where MoA has been signed to be recognized in the near future. JPA is also pre-qualified to bid for ~Rs85bn of HEP projects.

- Key stock triggers ahead — (1) Allotment of 588 acres of land in Noida in Sept./Oct. 2007 and (2) Commissioning of UPSCL cement capacity in FY08E.

Buy/Low Risk	1L
Price (17 Aug 07)	Rs793.35
Target price	Rs930.00
from Rs674.00	
Expected share price return	17.2%
Expected dividend yield	0.5%
Expected total return	**17.7%**
Market Cap	Rs172,731M
	US$4,196M

Price Performance (RIC: JAIA.BO, BB: JPA IN)

See Appendix A-1 for Analyst Certification and important disclosures.

Figure 1. Statistical Abstract

Year to	Net Profit	FD EPS	EPS Growth	Cons. FD EPS	EPS Growth	P/E	Cons. P/E	EV / EBITDA	P / Book	ROE	ROCE
31-Mar	(Rsmn)	(Rs)	(%)	(x)	(%)	(x)	(x)	(x)	(x)	(%)	(%)
FY05A	2,076	10.66	10.7%	13.28	2.8%	74.4	59.7	30.7	11.4	18.2%	6.1%
FY06A	2,786	11.83	11.0%	13.78	3.7%	67.0	57.6	30.9	8.0	16.5%	5.7%
FY07A	4,149	17.62	48.9%	24.24	75.9%	45.0	32.7	22.9	6.8	17.6%	6.7%
FY08E	5,428	21.84	24.0%	27.82	14.8%	36.3	28.5	17.9	5.8	19.4%	7.0%
FY09E	7,320	29.46	34.9%	35.43	27.4%	26.9	22.4	14.3	4.7	21.9%	7.8%
FY10E	8,022	32.28	9.6%	38.26	8.0%	24.6	20.7	12.8	4.0	20.0%	7.8%

Source: Citigroup Investment Research estimates

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Fiscal year end 31-Mar	2006	2007	2008E	2009E	2010E
Valuation Ratios					
P/E adjusted (x)	67.0	45.0	36.3	26.9	24.6
EV/EBITDA adjusted (x)	29.3	20.4	16.6	12.9	11.6
P/BV (x)	8.0	6.8	5.8	4.7	4.0
Dividend yield (%)	0.3	0.5	0.5	0.5	0.6
Per Share Data (Rs)					
EPS adjusted	11.83	17.62	21.84	29.46	32.28
EPS reported	27.18	17.62	21.84	29.46	32.28
BVPS	99.75	116.95	137.90	167.13	199.57
DPS	2.70	3.60	3.90	4.20	4.50
Profit & Loss (RsM)					
Net sales	31,648	34,779	41,485	59,029	71,891
Operating expenses	-26,816	-27,012	-31,555	-46,590	-58,761
EBIT	**4,832**	**7,767**	**9,930**	**12,439**	**13,129**
Net interest expense	-2,397	-2,573	-3,586	-3,420	-3,314
Non-operating/exceptionals	1,598	1,004	1,758	1,906	2,158
Pre-tax profit	**4,032**	**6,199**	**8,102**	**10,925**	**11,973**
Tax	-1,246	-2,050	-2,674	-3,605	-3,951
Extraord./Min.Int./Pref.div.	3,614	0	0	0	0
Reported net income	**6,400**	**4,149**	**5,428**	**7,320**	**8,022**
Adjusted earnings	2,786	4,149	5,428	7,320	8,022
Adjusted EBITDA	6,346	9,398	11,836	14,736	15,696
Growth Rates (%)					
Sales	12.4	9.9	19.3	42.3	21.8
EBIT adjusted	20.3	60.8	27.8	25.3	5.5
EBITDA adjusted	18.6	48.1	25.9	24.5	6.5
EPS adjusted	11.0	48.9	24.0	34.9	9.6
Cash Flow (RsM)					
Operating cash flow	**5,239**	**8,790**	**15,487**	**11,933**	**11,809**
Depreciation/amortization	1,515	1,631	1,906	2,297	2,567
Net working capital	-2,681	2,941	8,153	2,316	1,220
Investing cash flow	**-8,849**	**-24,185**	**-12,000**	**-9,616**	**-1,501**
Capital expenditure	-5,198	-21,969	-9,000	-3,315	-1,500
Acquisitions/disposals	-3,652	-2,216	-3,000	-6,301	-1
Financing cash flow	**13,035**	**12,997**	**13,806**	**-3,560**	**-910**
Borrowings	10,209	12,960	14,640	-2,650	0
Dividends paid	-662	-909	-834	-910	-910
Change in cash	**9,425**	**-2,398**	**17,292**	**-1,244**	**9,397**
Balance Sheet (RsM)					
Total assets	**85,842**	**108,775**	**129,123**	**136,343**	**145,974**
Cash & cash equivalent	16,697	14,299	31,591	30,347	39,745
Accounts receivable	4,224	4,521	0	1	2
Net fixed assets	28,074	48,412	55,506	56,524	55,458
Total liabilities	**64,389**	**83,136**	**98,890**	**99,701**	**102,219**
Accounts payable	4,041	4,832	5,172	7,619	9,785
Total Debt	42,198	55,158	69,798	67,148	67,148
Shareholders' funds	**21,453**	**25,640**	**30,233**	**36,643**	**43,754**
Profitability/Solvency Ratios (%)					
EBITDA margin adjusted	20.1	27.0	28.5	25.0	21.8
ROE adjusted	16.5	17.6	19.4	21.9	20.0
ROIC adjusted	10.3	12.1	12.8	15.7	16.7
Net debt to equity	118.9	159.4	126.4	100.4	62.6
Total debt to capital	66.3	68.3	69.8	64.7	60.5

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Target price raised to Rs930

We raise our target price to Rs930 from Rs674 earlier as:

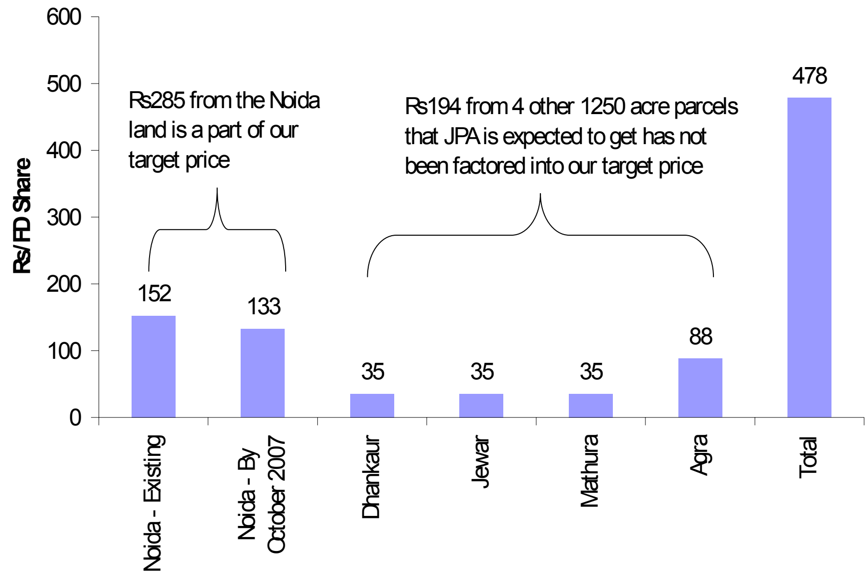
- We now also value the second parcel of land that JPA is expected to get in Noida by October 2007 as the UP Government is now showing increasing alacrity to move ahead, keeping in mind the Commonwealth Games in 2010
- We roll forward our target construction EV/EBITDA multiple to FY09E from FY08E previously
- We now value 15 MMTPA of cement capacity that would get commissioned by FY09E end vis-à-vis the previous 13.5 MMTPA of cement capacity assumption by FY08E end
- We factor in changes to the Jaypee Greens model
- We factor in dilution on account of the recent US$400mn FCCB

Figure 2. JPA Sum of the Parts

Parts	Methodology	Value	JPA/Share
Construction	**11x FY09E EV/EBITDA (30% discount to L&T and BHEL)**	**42,460**	**171**
- Existing Capacity 7 MMTPA	EV/Tonne of US$140	41,160	166
- UP Plant (2.5 MMPTA)	EV/Tonne of US$130 (FY08E Commissioning)	13,650	55
- HP Plant 3 MMPTPA + 1 MMPTA	EV/Tonne of US$120 (FY09E Commissioning)	20,160	81
Cement Capacity In Parent By FY09E	**Effective EV/EBITDA of 7.4x FY09E in line with other cement majors**	**74,970**	**302**
- Siddhi Cement (1.5 MMTPA)	EV/Tonne of US$120 (FY09E Commissioning)	7,560	30
- Less Siddhi Cement Capex	(FY09E Commissioning)	(6,000)	(24)
Total Cement + Construction EV		**118,990**	**479**
Net Debt	Including FCCBs as of FY09E	(36,800)	(148)
FCCB I + II + III Amounts Added Back	As we use FD Shares	25,720	104
Cement + Construction Equity Value		**107,909**	**434**
JHPL (Baspa II) + Jaypee Power Grid	20% discount to the market value	11,196	45
Vishnuprayag	2.5x Equity Investment	10,725	43
Karcham Wangtoo	Investments till March 2009 at BV	16,800	68
Jaypee Greens	DCF @ Discount Rate of 14%	11,725	47
Jaypee Hotels	20% Holding Company Discount to 72.18% Stake at MV	2,025	8
JPA Per Share w/o Taj Expressway		**160,380**	**645**
Taj Expressway Land Value	**6200 acres @ Rs21.3mn/acre and acquisition @ 2.1mn/acre**	**70,750**	**285**
- Noida 612 acres Existing	612 acres @ Rs64mn/acre and acquisition @ 2.2mn/acre	37,822	152
- Noida 588 acres By Oct 2007	588 acres @ Rs64mn/acre and acquisition @ 8.0mn/acre	32,928	133
JPA Equity Value		**231,130**	**930**

Source: Citigroup Investment Research estimates

Figure 3. Taj Expressway Land Valuation



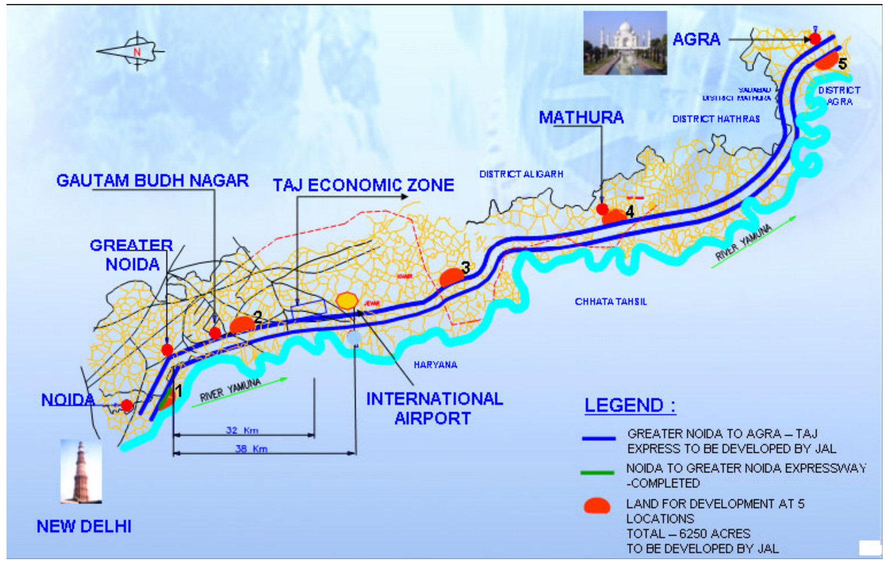
Source: Citigroup Investment Research estimates

Potential upside from the Taj Expressway project

- JPA had signed an agreement with the Uttar Pradesh (UP) government to build a 165km 6/8 Lane Access Controlled Expressway connecting Noida and Agra (competing with the existing NH2), at an estimated cost of Rs60bn over a seven-year period with concession rights for 36 years post construction. The government had also agreed to give 6,250 acres of land to JPA at five different locations along the expressway, with rights to develop it for 99 years at 1/10th the market price develop (at an FSI of 1.5) or sell it according to the cash flow requirements of the Taj Expressway project. However, the project had been delayed for three years on account of the setting up of an enquiry committee.

- The Justice S. Narayan inquiry committee appointed by the erstwhile UP Chief Minister (CM) Mulayam Singh Yadav to look into corruption charges against current CM Mayawati in the awarding of the 165-km Taj Expressway contract cleared the charges against her and recommended that the project be implemented right away.

Figure 4. Taj Expressway Project



Source: JPA

- In a government order dated February 26, 2007, the UP State Government has issued orders to the District Magistrate to acquire land in Sadar and Javer Tehsils of Gautam Budh Nagar. Further the needed land will be acquired in 190 villages situated on the route of the proposed Expressway from Greater Noida to Agra in villages including Tirthali, Kalainda, Sultanpur, Seroli, Mehendipur, Rustampur, Roneja, Shahpur, Mirzapur, Kadarpur, Jaganpur, Rampur, Attai, Uchheja, Burj, Munji, Kehra, Samaipur, Gurpura and Dankaur in GB Nagar. Similarly land will be acquired in 26 villages in Aligarh and 60 villages in Sadar Tehsil of Mathura. JPA has also written to the government that if land is made available, they will be able to build the Expressway and complete it by 2010 before the Commonwealth Games.

- JPA is already in possession of 612 acres of land in Noida for Rs22mn/acres. Management expects a parcel of 588 acres of land to be allotted to them by September/October 2007.

- Though Unitech acquired 340 acres of land in Greater Noida (where it has launched the Grande project at Rs7200/sqft) at Rs46.5mn/acre, recent transactions in the same area point to a rate higher than Rs80mn/acre.

- We had interacted with Unitech management on October 30, 2006 who believe that their purchase price was low because they purchased the land in a government auction and the current market value of the land that JPA has should be Rs80mn/acre to Rs100mn/acre.

- The JPA management has also indicated that they have firm offer from buyers for the Noida land at Rs80mn/acre.

Figure 5. Land Rates in Greater Noida

	Land (Acres)	Cost (Rsmn)	Value (Rsmn/acre)	Where
Unitech - Grande Land	340.0	15820	46.5	Sector 96, 97, 98
Transaction Done in Feb 2007				
Unitech	71.0	5964	84.0	Sector Pi
Unitech	54.0	4536	84.0	Sector Pi
Parsvnath	72.0	6020	83.6	Sector 116
IVRCL	33.0	2740	83.0	Sector 118
Ambience	37.5	3230	86.1	NA

Source: Citigroup Investment Research

- JPA would be allotted 1250 acre parcels in Dhankaur, Jewar, Mathura and Agra in the future as various milestones are met in the Taj Expressway project. However, we think it would be prudent to include this as a part of our target price when we get closer to the allocation dates or in case of a government notification to this effect. This implies an upside of Rs194/share.

Figure 6. JPA Taj Expressway Indicative Land Valuation

	Land (Acres)	Area at FSI 1.5 (mn sqft)	Market Rate (Rsmn/acre)	Post 20% Discount (Rsmn/acre)	Acquisition Rate (Rsmn/acre) #	Value Using 20% Discount (Rsmn)	Acquisition Cost (Rsmn)	Value to JPA (Rsmn)	Value/FD Share (Rs)
Noida - Existing	612	40	80.0	64.0	2.2	39,168	1,346	37,822	152
Noida - Oct 07	588	38	80.0	64.0	8.0	37,632	4,704	32,928	133
Dhankaur	1250	82	10.0	8.0	1.0	10,000	1,250	8,750	35
Jewar	1250	82	10.0	8.0	1.0	10,000	1,250	8,750	35
Mathura	1250	82	10.0	8.0	1.0	10,000	1,250	8,750	35
Agra	1250	82	25.0	20.0	2.5	25,000	3,125	21,875	88
Total/Average	**6200**	**405**	**26.6**	**21.3**	**2.1**	**131,800**	**12,925**	**118,875**	**478**

Source: Citigroup Investment Research # Acquisition @ 1/10th the market price of land

- For the road BOT project, JPA would be collecting toll revenues from the project over a period of 36 years post construction. We have been valuing road BOT projects using a P/BV value range of 1.0x – 2.0x to date using the (RoE – g) / (CoE –g) methodology. We assume that whatever debt is raised to fund Taj Expressway project and the associated interest cost would be repaid using the toll revenues from the project. We do not assume any upside/downside from the BOT project at this point in time and wait for clarity from management.

Significant progress on Jaypee Greens

The merger with Jaypee Greens was consummated in 2QFY07 with the company receiving all regulatory approvals for the same with a merger ratio of 2:1 resulted leading to an equity dilution of 24.9mn shares. Jaypee Greens is expected to sell 8mn sqft of property and generate revenues of ~ Rs50bn over a six-year period. The company has already sold Rs1.89mn sqft of property to date at realizations of Rs5671/sqft. The revenues and profits from this project will start being recognized from 3Q/4Q FY08 onwards.

Figure 7. Jaypee Greens Phase - I

	Total Area	Area Sold	Realization
	mn sqft	mn sqft	Rs/sqft
Estates	0.67	0.44	6080
Villas	0.55	0.50	5954
Town Homes	0.09	0.08	5880
Apartments	4.00	0.87	5283
Total	**5.31**	**1.89**	**5671**

Source: JPA and Citigroup Investment Research

Figure 8. Jaypee Greens Model

Year End Mar31 (Rsmn)	FY08E	FY09E	FY10E	FY11E	FY12E	FY13E
Sqft	0.35	1.06	1.67	1.76	1.69	1.47
Realization (Rs/sqft)	5671	5671	6000	6250	6500	6750
Construction Cost (Rs/sqft)	3000	3000	3000	3000	3000	3000
Revenues	2,000	6,000	10,000	11,000	11,000	9,925
Construction Costs	1,058	3,174	5,000	5,280	5,077	4,411
EBITDA	942	2,826	5,000	5,720	5,923	5,514
EBITDA Margins %	47%	47%	50%	52%	54%	56%
Tax @ 33%	311	933	1650	1888	1955	1820
PAT	631	1,894	3,350	3,832	3,968	3,694
Discounted PAT	631	1,661	2,578	2,587	2,350	1,919
NPV @ Discount Rate of 14%	**11,725**					

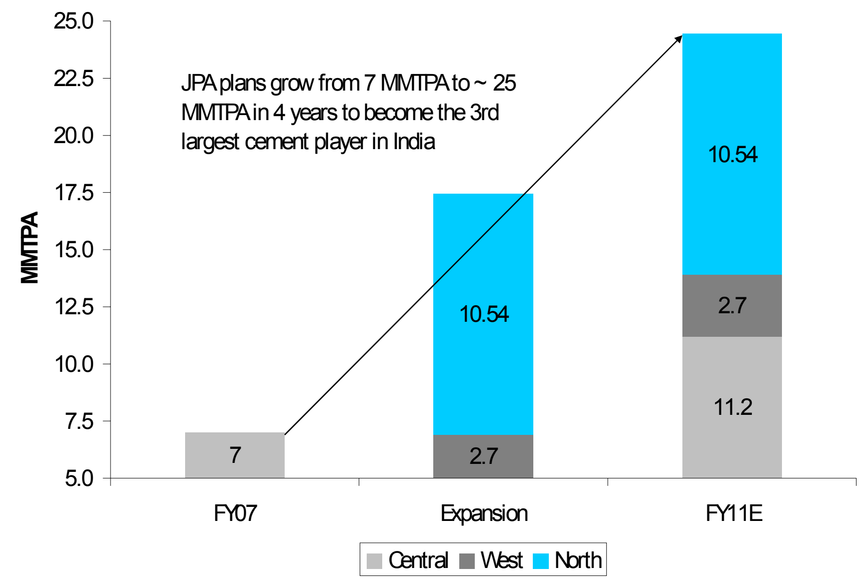
Source: Citigroup Investment Research

One of the largest cement players in India by FY11E

- JPA has a cement capacity of 7 MMTPA with a dominant market share of 21% in the northern states of Uttaranchal and Uttar Pradesh and a presence in central and eastern parts of the country.

- The company plans to expand capacity to ~ 25 MMTPA in four years in the northern and western markets to capture the growing demand for cement.

Figure 9. JPA Cement Expansion Plans



Source: JPA

Figure 10. JPA Cement Capacity Expansion Plans

Plant	Location	Region	Stake	FY07	FY08E	FY09E	FY10E	FY11E	Commissioning	Power Plant (MW)	Fuel	Project Cost (Rsmn)	EV/ton (US$)
PARENT													
Jaypee Rewa	MP	Central	100%	2.9					Running				
Jaypee Bela	MP	Central	100%	2.5					Running				
Jaypee Sadwakhurd	UP	Central	100%	0.6					Running				
Jaypee Ayodhya	UP	Central	100%	1.0					Running				
UPSCCL Project													
Churk	UP	Central	100%		0.5				Nov-07	60	100% CPP	9000	88
Dalla	UP	Central	100%		0.4				Nov-07	100% CPP			
Chunar	UP	Central	100%		1.6				Nov-07				
HP Cement Project													
Panipat Haryana	Haryana	Northern	100%			1.0			Jun-08	30	Municipal Waste	11500	70
Chamba	HP	Northern	100%			3.0			Jun-08		Non conventional		
Chamba	HP	Northern	100%					2.0	Mar-10				
JVs AND SUBSIDIARIES													
Gujarat Anjan	Gujarat	Western	100%				1.2		Mar-09	22	100% CPP	6000	122
Siddhi	MP	Central	100%			1.5			Mar-08	38	100% CPP	6000	98
JV with SAIL	Satna	Eastern	74%					0.5	Dec-09			6120	60
JV with SAIL	Bhilai	Eastern	74%					2.0	Dec-09				
JV with GMDC	Gujarat	Western	74%					2.4	Oct-10			8500	86
JV with GoBhutan	Bhutan	NA	50%					1	NA				
Total Capacity				7.0	9.5	15.0	16.2	24.1					
Parent Capacity				7.0	9.5	13.5	13.5	15.5					

Source: Citigroup Investment Research

- Our cement analyst Pradeep Mahtani recently downgraded the cement sector post meeting several cement companies in India, large cement machinery manufacturers and discussions with producers in Pakistan. The downgrade was based on the following reasons:

  (1) Recent government measures attempting to take away the last leg of pricing upside and the increasing threat of imports.

  (2) Capacities expected likely to create a surplus in FY09E/FY10E, even after assuming delays of six months for capacities and higher demand growth of 12%.

  (3) Diminishing exports due to surge in capacities in the Middle East (accounts for 50 -60%) of India's exports, thereby adding domestic supply.

  (4) Our estimates for JPA' cement division factor in his views assuming price and EBITDA margin peak in FY08E.

Figure 11. JPA Cement Division Revenues and EBITDA

	FY06	FY07	FY08E	FY09E	FY10E
Total Production (mn MT)	6.1	6.8	7.9	12.2	14.2
Growth	*12.8%*	*11.7%*	*17.5%*	*52.9%*	*16.7%*
Total Sales (million MT)	5.8	6.3	7.5	11.5	13.9
Growth	*8.2%*	*8.6%*	*19.5%*	*52.9%*	*21.6%*
Overall Realizations (Rs/MT)	2500	3305	3548	3301	3072
Growth	7.9%	32.2%	7.3%	-7.0%	-6.9%
Sales	12380	18640	24145	34012	38081
Intersegment	(383)	(857)	(1110)	(1564)	(1751)
Net Sales	11997	17783	23035	32448	36330
Segmental EBITDA	2751	6625	9086	10180	8107
EBITDA Margin %	22.9%	37.3%	39.4%	31.4%	22.3%

Source: Citigroup Investment Research

Strong inflow pipeline provides stability to E&C business

- JPA's E&C business had a tepid FY07 with revenues and EBITDA margins contracting 17% YoY and 178 bps respectively on the back of (a) slow progress on Karcham Wangtoo, which formed greater than 50% of the order backlog (OB) as of end FY06 of Rs77.5bn, (b) completion of Vishnuprayag, Dulhasti, Tehri, Teesta V, Indirasagar and Tala projects in FY06, (c) slow pickup in the Baglihar and Srisailam Projects.

- This trend continued in 1QFY08 with construction revenues contracting 14% and construction PBIT margins contracting 77bps. We expect this to continue in 2QFY08 and then show a reversal in 3QFY08/4QFY08 when substantial progress would be made on the Srisailam project.

- However, JPA ended FY07 with a strong order backlog (OB) of Rs115bn (up from Rs77.5bn end FY06) at on account of four new orders being added to the OB, the most significant being the Taj Expressway road project. Further the order inflow pipeline looks stronger than ever with the Rs150bn Noida real estate construction project and ~ Rs63bn of hydel projects where MoA has been signed to be recognized in the near future. Further JPA is pre-qualified to bid for ~ Rs85bn of HEP projects.

Figure 12. JPA E&C Order Backlog and Potential Order Pipeline

Current Orders	Rsmn
Karcham Wangtoo Project	30,000
Other Projects	26,940
Rajiv Sagar Lift Irrigation (Added in FY07)	2,820
GNSS Main Canal (Added in FY07)	1,120
Zirakpur Parwanoo Highway (Added in FY07)	4,120
Taj Expressway Road Project (Added in FY07)	50,000
Total March07 OB	115,000
Potential Order Pipeline	**Rsmn**
Noida - 75 mn sqft construction order @ Rs2000/sqft	150,000
HEP Orders Where MoA Signed @ Rs30mn/MW	63,000
HEP Orders Where Prequalified To Bid @Rs30mn/MW	84,900
Potential HEP Pipeline (MW)	**4930**
- Lower Siang (Signed MoA)	1600
- Hirong (Signed MoA)	500
- Kishanganga HEP, J &K (Prequaiified)	330
- Tipaimukh HEP, Manipur (Prequalified)	1500
- Pakal Dul, J&K (Prequalified)	1000

Source: Citigroup Investment Research

- JPA was earlier planning to subcontract out the Taj Expressway road to Malaysian construction companies. However, now it will be executing the project in-house and should make margins of 10%. We had assumed that the Taj Expressway road would be completed in five years by FY12E. However, there could be upside to our numbers in the event that land for the road is acquired and handed over to JPA to finish the project before the Commonwealth Games in 2010. Though EBITDA margins would see a downtrend as soon the road project starts getting executed it would provide JPA's E&C business the much needed respite from sales declines in FY07 and FY08E.

Figure 13. JPA E&C Division Revenues and EBITDA

	FY04	FY05	FY06	FY07	FY08E	FY09E	FY10E	FY11E	FY12E
Non Taj	16794	18513	19982	16573	12400	12400	12400	12400	12400
Taj					3600	7600	12600	14000	12200
Total Revenues	**16794**	**18513**	**19982**	**16573**	**16000**	**20000**	**25000**	**26400**	**24600**
Non Taj	31.1%	30.6%	26.9%	25.1%	25.0%	25.0%	25.0%	25.0%	25.0%
Taj					10.0%	10.0%	10.0%	10.0%	10.0%
EBITDA Margins	**31.1%**	**30.6%**	**26.9%**	**25.1%**	**21.6%**	**19.3%**	**17.4%**	**17.0%**	**17.6%**
Non Taj	5229	5656	5379	4166	3100	3100	3100	3100	3100
Taj					360	760	1260	1400	1220
EBITDA	**5229**	**5656**	**5379**	**4166**	**3460**	**3860**	**4360**	**4500**	**4320**

Source: Citigroup Investment Research

Everything hunky dory on the hydel BOOT projects

- 300MW Baspa II Project (63.34% Stake): Baspa II FY07 Recurring PAT at Rs1.5bn was up 78% YoY. Reported PAT as Rs1.99bn was up 37% YoY when we factor in the exceptional and prior-period items. Jaiprakash Hydro Power (the company in which Baspa II has been implemented) has entered into an Memorandum of Understanding (MoU) with the Central Transmission Utility (CTU) and set up a JV (JHPL – 74% stake and CTU – 26% stake), for developing the evacuating facilities for the 1000MW Karcham Wangtoo project in HP. The JV company will execute the project consisting of a 230 kms long transmission line, which is estimated to cost about Rs6bn, and would be financed by 70:30 Debt: Equity ratio and would be eligible for return as per CERC norms for transmission projects.

- 400MW Vishnuprayag Project (84.28% Stake): In October 2006 JPA has also commissioned the fourth unit of the 400MW Vishnuprayag project at Uttaranchal. The Power Purchase Agreement (PPA) for the project has already been signed with Uttar Pradesh Power Corporation. The project in its first year of operations earned profits of Rs718mn.

- 1000MW Karcham Wangtoo Project (100% Stake): The Karcham Wangtoo project has achieved financial closure and work has started on the project. JPA has signed a PPA with PTC tying up 704MW of capacity already.

- 2100MW of addition BOOT projects: JAL has signed Memorandum of Agreements (MoAs) for two more BOT projects (1) Lower Siang (1600MW - Rs64bn) & (2) Hirong (500MW - Rs20bn). The company expects to start construction on these projects in FY09 and the projects will be completed six years after start of construction. The civil contracts of these projects would flow to JPA's hydel E&C business providing long term revenue visibility.

JV for coal mining and 1000MW of coal based capacity in MP

- JPA has formed a mining JV with Madhya Pradesh State Mining Corporation (MPSMC) to develop 2 coal blocks (Amelia North and Dongrital) with estimated reserves of 155mn MT of extractable coal reserves for 35 years. JPA would use the coal for 1000MW of power capacity that it will set up.

- MPSMC would own a 30% stake in the company and Jaiprakash Associates would hold the balance 70% stake.

- JPA is evaluating the possibility of using super critical technology for this project and has had preliminary discussions with BHEL.

- The investments expected in this project are Rs40bn for the power plant and Rs10bn for the coal mining and is expected to be commissioned by FY12E.

- MPSMC would not be investing any money in the JV and is guaranteed income by way of a facilitation fee on each tonne of coal produced.

- The government of MP has the first right of refusal on purchase of 30% of the power generated and the balance 70% is likely to be merchant power.

500MW power plant in UP

- JPA is also planning to set up a 500MW (2x250MW) coal-based thermal power plant at Churk, Uttar Pradesh. The company is also in talks to get a captive coal block for the same.
- JPA plans to sell the power generated from the power plant on a merchant basis. The project cost is estimated at Rs22bn, and the plant is likely to be commissioned by FY11E.

Acquisition of Malvika Steel

- JPA recently acquired the assets of Malvika Steel located in Uttar Pradesh at a cost of Rs2.07bn. UP's first integrated steel plant would become operational in two phases spanning over 15 to 36 months Investments of over Rs16bn in two phases has been envisaged requiring Rs10bn for Phase-I and Rs6bn for Phase-II to have a 550,000 tonne integrated long products plant up and running. The products will be utilised for the company's construction activities involving roads, power plants and real estate ventures. As per the scheme of things, the company gets a significant transport subsidy of 30% on outward freight movements.
- Interestingly, JPA will also have access to 754 acres of land which is 80km from Lucknow with railway and water linkages which could be used for real estate development in the future if the necessary approvals are obtained. According to the management setting up a similar greenfield plant today would costs Rs25-30bn.

Oil and gas exploration block

- The company has been awarded the inland oil exploration block in South Rewa under the NELP VI in consortium with Prize Petroleum, a subsidiary of Hindustan Petroleum Corporation (HPCL).

50MW wind power plant in Maharashtra

- JPA is also setting up a 50MW wind power plant at Dhule (Maharashtra). The project costs are Rs2.4bn and would be funded through a debt: equity mix of 70:30.
- 16.5MW of capacity has been commissioned till date and the balance capacity would be commissioned by September 2007. Post commissioning JPA would get accelerated depreciation benefits which will help reducing the tax out go for the parent company.

Fully diluted shares of ~ 248.48mn for EPS and SOTP

- JPA recently raised US$400mn (exchange rate at Rs40.35) through an FCCB at a conversion price of Rs1238.78 which on conversion would lead to a dilution of 13.03mn shares. As consequence, we now re-work our EPS and target price using FD shares equal to 248.48mn.

Figure 14. JPA Fully Diluted Shares

Dilution on Account of	mn
JPA FY05 Equity Shares	176.22
1st US$100mn FCCB Dilution	18.53
Jaypee Greens Dilution	24.88
2nd Euro165mn FCCB Dilution	15.83
3rd US$400mn FCCB Dilution	13.03
Fully Diluted (FD Shares)	**248.48**

Source: Citigroup Investment Research

Earnings Revision

We have revised our earnings estimates for FY08E and FY09E and introduced estimates for FY10E to factor in:

- Decline in construction revenues in FY08E followed by a strong pickup in FY09E and FY10E led by the Taj Expressway road project execution. This would also lead to a margin decline over the next three years as the project would yield EBITDA margins of only 10%.
- Strong growth in cement volumes over next three years. Cement realization and margins would peak in FY08E and then decline in FY09E and FY10E.
- Jaypee Greens contributing Rs2bn, Rs6bn and Rs10bn in revenues in FY08E, FY09E and FY10E respectively
- Dilution impact of the recent US$400mn FCCB.

As a consequence we have increased our FD EPS for FY08E by 5% and reduced it by 3% for FY09E.

Figure 15. JPA Earnings Revision Table

	FY07	FY08E	FY09E	FY10E
Revenues				
Old	36,895	44,046	57,689	na
New	34,779	41,485	59,029	71,891
Change	-5.7%	-5.8%	2.3%	Nm
EBITDA				
Old	8,698	10,863	14,680	Na
New	9,398	11,836	14,736	15,696
Change	8.0%	9.0%	0.4%	Nm
EBITDA Margin %				
Old	23.6%	24.7%	25.4%	na
New	27.0%	28.5%	25.0%	21.8%
Change (bps)	345	387	-48	Nm
Recurring PAT				
Old	3,822	4,903	7,141	na
New	4,149	5,428	7,320	8,022
Change	8.5%	10.7%	2.5%	Nm
FD EPS				
Old	16.23	20.82	30.33	Na
New	17.62	21.84	29.46	32.28
Change	8.5%	4.9%	-2.9%	nm

Source: Citigroup Investment Research estimates

Figure 16. JPA Segmental Model

	FY03	FY04	FY05	FY06	FY07	FY08E	FY09E	FY10E
Net Revenues								
Construction	17214	16794	18513	19982	16573	16000	20000	25000
Cement	7244	7541	9442	11941	17605	23035	32448	36330
Hospitality	99	98	111	235	297	286	342	409
Unallocated	324	324	516	4315	445	654	711	802
Wind Power					5	5	5	5
Real Estate						2000	6000	10000
Total	**24881**	**24758**	**28583**	**36473**	**34926**	**41980**	**59505**	**72546**
EBITDA								
Construction	4421	5229	5656	5379	4166	3460	3860	4360
Cement	1336	1117	1939	2751	6625	9086	10180	8107
Hospitality	10	11	28	66	89	89	109	135
Unallocated	(142)	(327)	(867)	(253)	(482)	(602)	(752)	(780)
Wind Power					5	5	5	5
Real Estate					0	942	2826	5000
Total	**5626**	**6030**	**6755**	**7944**	**10402**	**12980**	**16228**	**16827**
EBITDA Margin %								
Construction	25.7%	31.1%	30.6%	26.9%	25.1%	21.6%	19.3%	17.4%
Cement	18.4%	14.8%	20.5%	23.0%	37.6%	39.4%	31.4%	22.3%
Hospitality	10.4%	11.4%	25.0%	28.2%	29.8%	31.0%	32.0%	33.0%
Real Estate						47.1%	47.1%	50.0%
Total	22.6%	24.4%	23.6%	21.8%	29.8%	30.9%	27.3%	23.2%
EBIT								
Construction	3914	4544	5074	4764	3521	2775	3135	3595
Cement	782	554	1214	1905	5706	7938	8687	6390
Hospitality	6	6	22	37	57	54	72	95
Unallocated	(159)	(345)	(889)	(277)	(511)	(634)	(787)	(818)
Wind Power					(1)	(1)	(1)	(1)
Real Estate						942	2826	5000
JHPL Share Sale				3614	0	0	0	
Total	**4543**	**4759**	**5422**	**10043**	**8772**	**11074**	**13931**	**14260**
EBIT Margins								
Construction	22.7%	27.1%	27.4%	23.8%	21.2%	17.3%	15.7%	14.4%
Cement	10.8%	7.3%	12.9%	16.0%	32.4%	34.5%	26.8%	17.6%
Hospitality	5.7%	6.1%	20.1%	15.7%	19.2%	19.0%	21.1%	23.1%
Wind Power					-31.1%	-31.1%	-31.1%	-31.1%
Real Estate						47.1%	47.1%	50.0%
Total	18.3%	19.2%	19.0%	27.5%	25.1%	26.4%	23.4%	19.7%

Source: Citigroup Investment Research estimates

Jaiprakash

Company description

JPA is a conglomerate with interests in engineering and construction (hydel power, river valley & roads), cement, hydroelectric build-own-operate-transfer (BOOT) projects, hotels and real estate.

Investment thesis

We rate JPA shares Buy / Low Risk (1L). Driven by a strong infrastructure capex tailwind, JPA's construction business fundamentals look solid with an order backlog of ~Rs115bn. With its status as the leading hydroelectric E&C and EPC contractor in the country, JPA looks poised to exploit the vast hydroelectric E&C opportunity over the next decade. The cement business should provide a growth kicker, with JPA increasing capacity to 24.1 MMTPA by FY11E. However, we believe JPA's trump cards are 1) the recent award of the Taj Expressway project that provides a civil contract of Rs50bn, a sweetener of 6,250 acres and a 36-year BOT contract; and 2) the portfolio of hydroelectric BOOT projects.

Valuation

We raise our target price to Rs930 from Rs674 mainly due to:

- We now also value the second parcel of land that JPA is expected to get in Noida by October 2007 as the UP Government is now showing increasing alacrity to move ahead, keeping in mind the Commonwealth Games in 2010
- We roll forward our target construction EV/EBITDA multiple to FY09E from FY08E previously
- We now value 15 MMTPA of cement capacity that would get commissioned by FY09E end vis-à-vis the previous 13.5 MMTPA of cement capacity assumption by FY08E end
- We factor in changes to the Jaypee Greens model
- We factor in dilution on account of the recent US$400mn FCCB

Our target price of Rs930 is based on a sum-of-the-parts valuation given the company's profile: 1) Construction business: Using an FY09E EV/EBITDA of 11x at a 30% discount to L&T and BHEL, despite higher EBITDA margins, JPA's EBITDA is growing at a much slower pace. 2) Existing 7 MMTPA of capacity: Using EV/tonne of US$140 3) 2.5 MMTPA UPSCL Plant: Using EV/tonne of US$130 4) 3 MMTPA HP Plant + 1 MMTPA Panipat grinding unit: Using EV/tonne of US$120 5) 1.5 MMTPA Siddhi plant: Using EV/tonne of US$120 6) Hydel BOOT projects: We value the Baspa project at a 20% holding-company discount to its market value and the Vishnuprayag projects at a P/BV of 2.5x and Karcham Wangtoo at FY09E BV. 7) Jaypee Greens: DCF using a discount rate of 14% 8) Jaypee Hotels: At a 20% holding company discount to the market value and 9) Taj Expressway Land at Rs285/share.

Risks

We rate JPA shares Low Risk, which differs from the Medium Risk assigned by our quantitative risk-rating system that tracks 260-day historical share price volatility. This is primarily because JPA's E&C order book of Rs115bn+ implies sales coverage of 6.9x FY07, providing earnings visibility for the medium term. Key downside risks to the shares reaching our target price include: the construction business is subject to project risks; and is sensitive to economic variables; the cement business is subject to demand-supply dynamics; further delays in the Taj Expressway project; slowdown in India's hydroelectric power capex; development and commercial risks in developing and selling the land associated with the Taj Expressway project; and substantial declines in real estate prices in the northern parts of India.

Appendix A-1

Analyst Certification

We, Venkatesh Balasubramaniam and Deepal Delivala, research analysts and the authors of this report, hereby certify that all of the views expressed in this research report accurately reflect our personal views about any and all of the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

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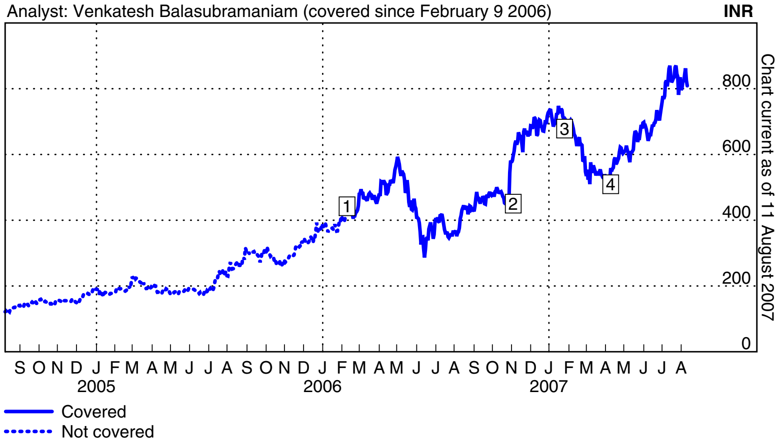
Jaiprakash (JAIA.BO)

Ratings and Target Price History - Fundamental Research

Analyst: Venkatesh Balasubramaniam (covered since February 9 2006)



#	Date	Rating	Target Price	Closing Price
1:	9 Feb 06	1L	557.00	NA
2:	3 Nov 06	1L	*697.00	597.15
3:	25 Jan 07	*2L	*802.00	709.85
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