

Mid Cap
 Electrical Equipment
 Equity – India

Neutral (V)

Target price (INR)	220.00
Share price (INR)	195.25
Potential total return (%)	12.7

Performance	1M	3M	12M
Absolute (%)	13.3	10.2	
Relative ^A (%)	3.9	13.9	

Index^A BOMBAY SE IDX

RIC JYTS.BO
 Bloomberg JYS IN

Market cap (USDm) 386
 Market cap (INRm) 15,755

Enterprise value (INRm) 16,291
 Free float (%) 75.15

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

8 May 2007

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Jyoti Structures Ltd.

Near-term trigger appears priced in; downgrading rating to Neutral (V)

- ▶ **Q4 FY07 sales grew 28% and EBITDA margin expanded by 173bps to 12.8%, which led to PAT growth of 58% y-o-y**
- ▶ **JYTS ran up sharply during the pre-results period, and we expect the stock to take a breather now**
- ▶ **We are raising our target price to INR220 from INR215 but downgrading our rating to Neutral (V) from Overweight (V)**

Q4 FY07 results

Jyoti Structures announced that Q4 FY07 sales grew 28% y-o-y and the EBITDA margin expanded by 173bps to 12.8%. PAT rose 58% y-o-y but EPS grew 47% due to a higher number of shares outstanding than a year earlier. For full-year FY07, sales grew 39% y-o-y and EBITDA expanded by 192bps to 12.3%. Overall, quarterly and annual results were strong, but we believe that optimism has already been priced into the stock.

Strong run-up but we see limited upside potential

We believe that the long-term fundamentals of the transmission and distribution (T&D) sector in India are strong and that the visibility of investment is clear. Jyoti Structures should be a beneficiary of this visibility. The company's stock rose 24% during the pre-results period; now see limited upside potential.

Downgrading rating to Neutral (V)

We are raising our end-2007 target price to INR220 from INR215. Our new target price is the midpoint of our DCF-based fair value of INR180 and PE multiple-based fair value of INR260. Under our research model, for stocks with a volatility indicator, the Neutral band is 10ppts above and below the hurdle rate for Indian stocks of 13.5%. This translates into a Neutral band of 3.5-23.5% around the share price. Our new target price suggests potential total return of 12.7%, within the Neutral band; therefore, we are lowering our rating to Neutral (V) from Overweight (V).

Q4 FY07: Sales growth with margin expansion

Jyoti Structures announced full-year FY07 and Q4 FY07 results. The key highlights:

- ▶ Sales for Q4 FY07 grew 28% and for FY07 rose 39% y-o-y to exceed INR10bn.
- ▶ EBITDA margin for Q4 FY07 expanded by 173bps y-o-y to 12.8%, and EBITDA for FY07 improved by 192bps to 12.3%.
- ▶ The improvement in EBITDA margin was reflected in improvement in net margin, which led to 60% y-o-y growth for Q4 FY07 and 100% y-o-y growth for FY07.

Jyoti Structures: Income statement (INRm)

	Q4 FY07	Q4 FY06	y-o-y	FY07	FY06	y-o-y
Sales	3,044	2,378	28%	10,258	7,402	39%
Raw material	2,136	1,705	25%	7,322	5,355	37%
As % of sales	70.2%	71.7%	(151)	71.4%	72.4%	(97)
Staff exp.	87	41	113%	266	185	44%
As % of sales	2.8%	1.7%	113	2.6%	2.5%	9
Other exp.	432	369	17%	1,407	1,093	29%
As % of sales	14.2%	15.5%	(135)	13.7%	14.8%	(105)
Expenditure	2,654	2,115	26%	8,996	6,633	36%
EBITDA	390	264	48%	1,263	769	64%
EBITDA margin	12.8%	11.1%	173	12.3%	10.4%	192
Depreciation	16	16	-2%	58	48	20%
As % of sales	0.5%	0.7%	(16)	0.6%	0.7%	(9)
Interest	100	60	66%	329	258	27%
As % of sales	3.3%	2.5%	76	3.2%	3.5%	(29)
PBT	274	187	46%	876	462	89%
Tax	110	83	32%	320	185	73%
Tax rate	40%	44%	(443)	37%	40%	(349)
Net profit	164	104	58%	555	277	101%
Net margins	5.4%	4.4%	103	5.4%	3.7%	167
EPS	2.1	1.4	47%	7.1	3.8	84%

Source: Company reports

Valuation

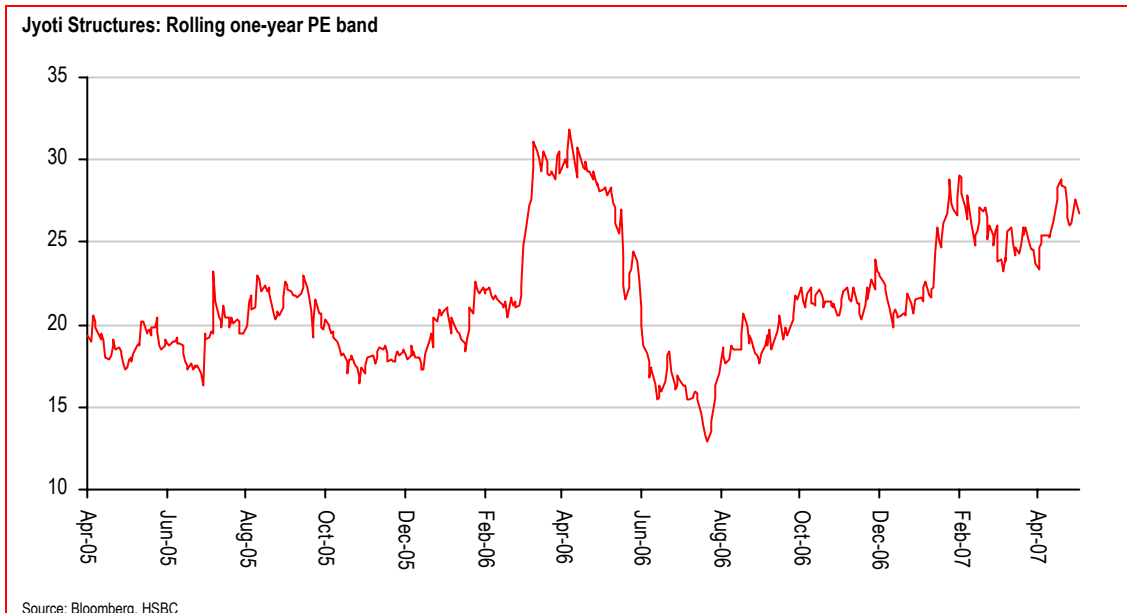
We use a combination of a DCF and PE multiple analyses to determine our target price and rating.

Jyoti Structures: DCF drivers

	2008e	2009e	2010e	2011e	Over 20 years	2030e
Asset turn (x)	4.16	4.65	5.35	5.35	fading to	3.00
Pre-tax margin	10.7%	11.6%	12.0%	12.0%	fading to	6.5%
Tax effect	35.0%	35.0%	35.0%	35.0%	fading to	30.7%
ROIC	29.0%	35.0%	41.8%	41.8%	fading to	13.5%
Cost of capital	13.5%	13.5%	13.5%	13.5%	fading to	13.5%
Turnover growth	na	36.2%	26.4%	25.0%	fading to	1.2%
IC growth	13.1%	8.5%	7.5%	7.5%	fading to	5.0%
ROIC - cost of capital	15.5%	21.5%	28.3%	28.3%	fading to	0.0%

Source: HSBC

DCF approach: We use a three-stage DCF to value Jyoti Structures. We assume the cost of capital to be 13.5%. We have an explicit period from FY08-FY10e. We use a semi-explicit period of 10 years starting from FY11e. We assume a 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 is INR180, which is higher than our previous fair value of INR165, as we changed our explicit forecast from FY07 to FY08e.



PE approach: We arrive at target PE of 23x based on our analysis of Jyoti Structures stock's historical trading pattern. Over the last two years, JYTS has traded in the range of 15-25x its one-year rolling forward PE multiple. There was a spike during this period, followed by a correction in the Indian stock market. Compared to the CNX Midcap Index, the stock largely traded at a premium. During the last few months, it has been trading in a band of 20-25x. We believe that shares of Jyoti Structures at its current stage of growth should trade at a PE multiple of 23x, which generates a PE-based FY08e fair value of INR260 based on our FY08e EPS estimate of INR11.4.

Raising target price but downgrading rating to Neutral (V)

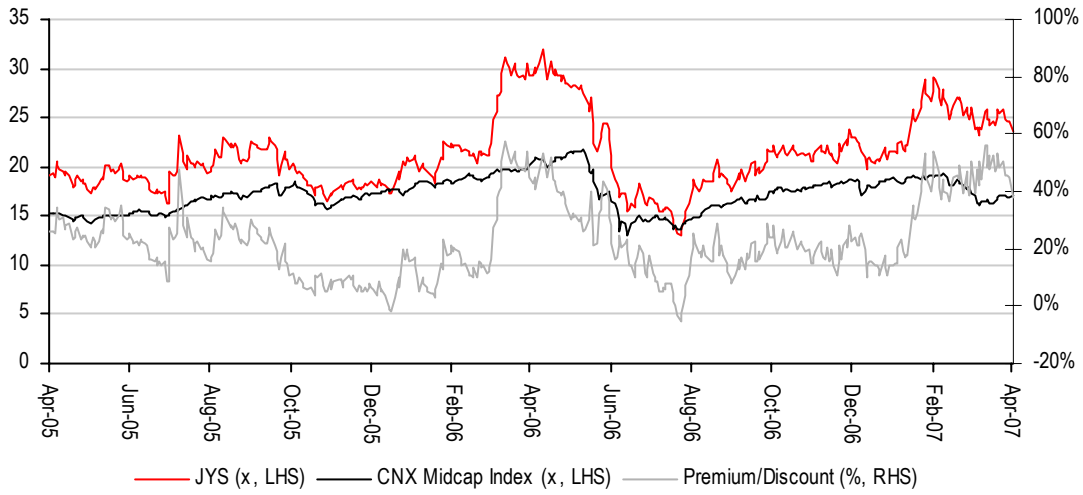
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Risks

Upside risks, we believe, include higher-than-expected order execution, leading to higher revenue, and higher EBITDA margins and increased net earnings due lower depreciation and interest cost.

Downside risks that we see include a slowdown in the economy, which might affect order flow; slow execution of orders, which could affect sales bookings; raw material price (steel) movement that might affect the net profit margin; slow execution of capex plans; a higher-than-anticipated working capital requirement, which would increase interest cost; and dilution of equity.

Jyoti Structures vs. CNX Midcap Index rolling one-year forward PE



Source: Bloomberg, HSBC

Financials & valuation

Financial statements

Year to	03/2006a	03/2007e	03/2008e	03/2009e
Profit & loss summary (INRm)				
Revenue	7,402	10,258	14,309	18,092
EBITDA	769	1,262	1,858	2,447
Depreciation & amortisation	-48	-58	-75	-89
Operating profit/EBIT	720	1,204	1,784	2,358
Net interest	-258	-329	-328	-354
PBT	462	875	1,456	2,004
HSBC PBT	0	0	0	0
Taxation	-185	-330	-510	-701
Net profit	277	546	946	1,302
HSBC net profit	277	546	946	1,302

Cash flow summary (INRm)

Cash flow from operations	-82	496	1,020	1,574
Capex	-177	-200	-250	-250
Cash flow from investment	-144	-200	-250	-250
Dividends	-31	-69	-120	-165
Change in net debt	623	-870	-322	-805
FCF equity	-526	-33	442	970

Balance sheet summary (INRm)

Intangible fixed assets	0	0	0	0
Tangible fixed assets	546	686	861	1,022
Current assets	4,889	6,463	8,360	10,500
Cash & others	38	608	930	1,735
Total assets	5,602	7,316	9,388	11,689
Operating liabilities	2,557	3,157	4,403	5,567
Gross debt	1,609	1,309	1,309	1,309
Net debt	1,571	701	379	-426
Shareholders funds	1,216	2,662	3,488	4,627
Invested capital	2,840	3,385	3,888	4,220

Ratio, growth and per share analysis

Year to	03/2006a	03/2007e	03/2008e	03/2009e
Y-o-y % change				
Revenue	68.2	38.6	39.5	26.4
EBITDA	85.2	64.2	47.2	31.7
Operating profit	91.7	67.2	48.1	32.2
PBT	155.0	89.5	66.3	37.6
HSBC EPS	106.3	71.7	73.3	37.7

Ratios (%)

Revenue/IC (x)	3.1	3.3	3.9	4.5
ROIC	18.2	24.1	31.9	37.8
ROE	25.6	28.1	30.8	32.1
ROA	8.6	11.6	13.9	14.5
EBITDA margin	10.4	12.3	13.0	13.5
Operating profit margin	9.7	11.7	12.5	13.0
EBITDA/net interest (x)	3.0	3.8	5.7	6.9
Net debt/equity	129.2	26.4	10.9	-9.2
Net debt/EBITDA (x)	2.0	0.6	0.2	-0.2
CF from operations/net debt		70.7	269.2	

Per share data (INR)

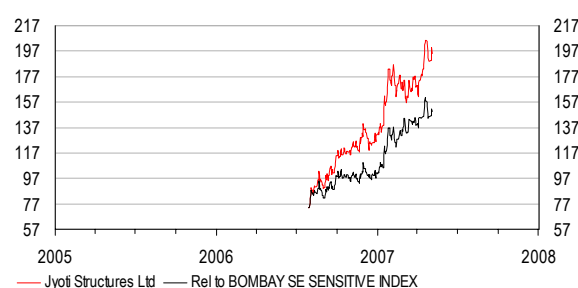
EPS reported (fully diluted)	3.84	6.59	11.41	15.72
HSBC EPS (fully diluted)	3.84	6.59	11.41	15.72
DPS	0.44	0.86	1.49	2.05
NAV	17.60	33.12	43.41	57.58

Valuation data

Year to	03/2006a	03/2007e	03/2008e	03/2009e
EV/sales	2.3	1.6	1.1	0.8
EV/EBITDA	22.3	12.9	8.6	6.2
EV/IC	6.0	4.8	4.1	3.6
PE*	50.9	29.6	17.1	12.4
P/NAV	11.1	5.9	4.5	3.4
FCF yield (%)	-3.4	-0.2	2.8	6.2
Dividend yield (%)	0.2	0.4	0.8	1.1

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

Price relative



Source: HSBC

Note: price at close of 04 May 2007

Disclosure appendix

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Stock ratings

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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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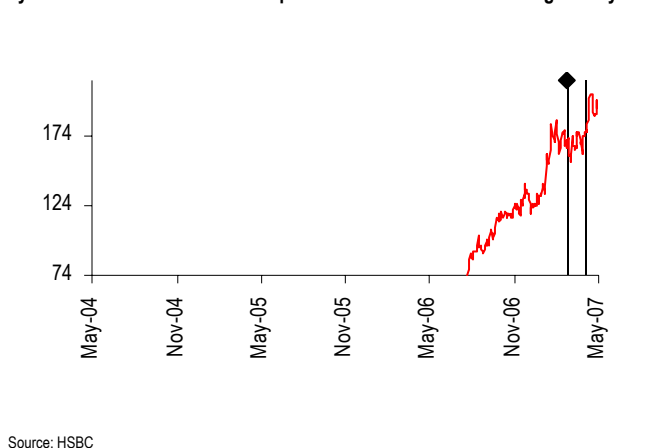
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Overweight (Buy)	42%	(15% of these provided with Investment Banking Services)
Neutral (Hold)	37%	(16% of these provided with Investment Banking Services)
Underweight (Sell)	21%	(14% of these provided with Investment Banking Services)

Share price and rating changes for long-term investment opportunities

Jyoti Structures Ltd Share Price performance INR Vs HSBC rating history



Recommendation & price target history

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

Source: HSBC

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