

Jaiprakash Power Ventures (JPVL)

Rs50
OUTPERFORMER

RESULT NOTE

Mkt Cap: Rs106bn; US\$2.3bn

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Result: Q3FY11

Comment: Above estimates led by VER sales, higher interest income and lower interest outgo.

Last report: 31 October 2010 (Price Rs62; Recommendation: Outperformer)

Key valuation metrics

| Year to March (Rs mn) | Sales | yoy chg (%) | Net Profit | EPS (Rs) | yoy chg (%) | PER (x) |
|-----------------------|--------|-------------|------------|----------|-------------|---------|
| FY08 | 3,008 | (8.6) | 1,330 | 2.7 | (11.5) | 18.6 |
| FY09 | 2,967 | (1.4) | 1,473 | 3.0 | 10.7 | 16.8 |
| FY10 | 6,907 | 132.8 | 2,518 | 1.2 | (59.9) | 42.0 |
| FY11E | 7,223 | 4.6 | 1,663 | 0.8 | (34.0) | 63.6 |
| FY12E | 30,194 | 318.0 | 8,385 | 4.0 | 404.2 | 12.6 |

Highlights of Q3FY11 results

- JPVL's Q3FY11 earnings came in significantly ahead of estimates due to income from sale of emission reduction certificates as well as due to higher than estimated interest income even as operating income was below our estimates.
- Revenues grew by 33%yoy to Rs1.52bn broadly in line with estimates of Rs1.57bn for the quarter. Revenue growth was driven by income of Rs224m from sale of emission reduction certificates even as revenues from energy sales trailed estimates due to lower than estimated tariffs.
- Energy sales grew by 31%yoy to 586m units lead by strong hydro power generation resulting from strong monsoons during the year. Revenues from energy sales remained impacted by lower secondary energy incentives booked during the quarter leading to lower realizations.
- EBIDTA grew by 30.9%yoy to Rs1.27bn, below our estimate of Rs1.4bn impacted by higher O&M and other expenses during the quarter.
- Other income jumped 6x to Rs297m against Rs49m in Q3FY10 - above estimate of Rs190m led by interest on cash and bank balance of ~Rs25bn as also interest received on arrears from HPSEB. The surplus cash is meant to be invested as equity in under development projects.
- Interest expenses grew sharply to Rs1.04bn against Rs505m in Q3FY10 (below our estimate of Rs1.2bn) led by increased borrowings in the parent company and securitization of cash flows of Baspa and Vishnuprayag to fund JPVL's equity commitments in under development projects like Karcham, Nigrie and Bina.
- Resultant, PAT grew by 3.9%yoy to Rs228m above our estimate of Rs104m aided by higher other income and lower than estimated interest expenses.

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- JPVL provided for MAT of Rs57m during Q3FY11 with the effective tax rate being 19.9%

Valuations & View

JPVL's Q3FY11 earnings have been significantly ahead of our estimates led by higher interest income from surplus cash balance and lower than estimated interest expenses. We have upgraded our FY11 estimates by 6.4% (no change in FY12 earnings) to account for the higher than expected earnings in Q3FY11. We like JPVL for its execution strength as well as a portfolio of potentially lucrative RoE power projects. The company derives its strength in execution from parent Jaiprakash Associates' wide experience in hydro power EPC and long track record of successful execution of hydro projects. Simultaneously, a strong hydro power focus allows for RoE up to 20-25% even from regulated return assets which, coupled with exposure to market-linked revenue streams (~41% merchant capacity) would drive superior RoEs. With medium-term funding needs met from cash flow securitization and US\$200mn FCCB issue and additional borrowings of Rs20bn, we see rapid progress on project execution going forward. With a development pipeline of 12,770MW and commissioning of the 1,000MW Karcham Wangtoo hydro power project by March 2011, we see long-term value creation potential in JPVL. Maintain Outperformer rating with a price target of Rs79 per share.

JPVL SOTP

| Project | Valuation | MW | CoD | TPC | Equity | Debt | Gearing | Eq value | Stake | JPPL value | Disc. |
|---|-----------|---------------|--------|----------------|----------------|----------------|---------|----------------|-------|----------------|----------|
| Rsm | | | | | | | (x) | (FY12) | (%) | (FY12) | rate (%) |
| Hydel Projects | | | | | | | | | | | |
| Baspa -II | 14x PER | 300 | - | | | | | 26,032 | 100 | 26,032 | NA |
| Vishnuprayag | 14 x PER | 400 | - | | | | | 4,242 | 100 | 4,240 | NA |
| Karcham Wangtoo | DCF | 1,000 | Aug-11 | 70,800 | 21,240 | 49,560 | 2.33 | 57,374 | 55 | 31,555 | 16 |
| Lower Siang | DCF | 2,700 | Jul-15 | 148,500 | 37,125 | 111,375 | 3.00 | 46,342 | 89 | 41,245 | 17 |
| Hirong | DCF | 500 | Dec-17 | 27,500 | 6,875 | 20,625 | 3.00 | 4,460 | 89 | 3,969 | 18 |
| Kynshi | DCF | 450 | Mar-18 | 24,750 | 7,425 | 17,325 | 2.33 | 2,040 | 74 | 1,509 | 18 |
| Umngot | DCF | 270 | Jun-18 | 14,850 | 4,455 | 10,395 | 2.33 | 1,309 | 74 | 969 | 18 |
| Total hydel | | 5,620 | | 303,063 | 82,210 | 220,853 | | 141,796 | | 109,519 | |
| Thermal Projects | | | | | | | | | | | |
| Nigrie | DCF | 1,320 | Jun-13 | 74,000 | 22,200 | 51,800 | 2.33 | 36,235 | 100 | 36,235 | 15 |
| Bina | DCF | 1,250 | Oct-13 | 62,040 | 18,612 | 43,428 | 2.33 | 19,218 | 100 | 19,218 | 15 |
| Bara | DCF | 3,300 | Apr-14 | 170,720 | 51,216 | 119,504 | 2.33 | 14,924 | 100 | 14,924 | 16 |
| Karchana | DCF | 1,980 | Apr-14 | 102,360 | 30,708 | 71,652 | 2.33 | 6,535 | 100 | 6,535 | 16 |
| Total thermal | | 7,850 | | 409,120 | 122,736 | 286,384 | | 76,913 | | 76,913 | |
| Transmission | DCF | | Jul-10 | 10,000 | 3,000 | 7,000 | 2.33 | 3,432 | 23 | 789 | 15 |
| Total | | 13,470 | | 722,183 | 207,946 | 514,237 | | 222,141 | | 187,221 | |
| Add: Cash | | | | | | | | | | 6,223 | |
| Less: Debt in parent books (excluding FCCBs) | | | | | | | | | | 20,000 | |
| Total Equity Value | | | | | | | | | | 173,444 | |
| Value (Rs / Share) (based on fully diluted equity) | | | | | | | | | | 79 | |

Quarterly results

| In Rsm | 3Q10 | 4Q10 | FY10 | 1Q11 | 2Q11 | 3Q11 | FY11E |
|-----------------------|---------------|--------------|--------------|--------------|--------------|--------------|---------------|
| Total revenues | 1,142 | 3,896 | 6,907 | 1,903 | 2,470 | 1,516 | 7,223 |
| Operating expenses | 174 | 500 | 829 | 290 | 383 | 250 | 1,135 |
| EBITDA | 968 | 3,396 | 6,078 | 1,613 | 2,087 | 1,266 | 6,088 |
| OPM | 84.7 | 87.2 | 88.0 | 84.8 | 87.8 | 98.0 | 88.2 |
| Other income | 49 | 141 | 271 | 176 | 356 | 297 | 1,088 |
| Depreciation | 240 | 464 | 951 | 237 | 239 | 240 | 960 |
| EBIT | 776 | 3,073 | 5,399 | 1,553 | 2,204 | 1,324 | 6,216 |
| Interest | 505 | 1,486 | 2,364 | 972 | 1,118 | 1,040 | 4,188 |
| PBT | 272 | 1,587 | 3,034 | 580 | 1,086 | 284 | 2,028 |
| Tax | 35 | 279 | 516 | 96 | 217 | 57 | 384 |
| Tax rate | 12.7 | 17.6 | 17.0 | 16.5 | 19.9 | 19.9 | 18.9 |
| PAT | 237 | 1,308 | 2,518 | 485 | 870 | 228 | 1,644 |
| % yoy | 0.3 | 444.2 | 71.0 | 32.6 | 43.1 | (3.9) | 349.8 |
| Minorities | - | - | - | - | - | - | - |
| Share of Associates | - | - | - | - | - | - | 19 |
| Post Minorities PAT | 237 | 1,308 | 2,518 | 485 | 870 | 228 | 1,663 |
| Extraordinary items | (68) | 66 | (3) | (100) | - | - | - |
| Reported PAT | 169 | 1,374 | 2,516 | 385 | 870 | 228 | 1,663 |
| Shares O/S | 491 | 2096 | 2096 | 2,096 | 2,096 | 2,096 | 2,096 |
| EPS | 0.48 | 0.62 | 1.20 | 0.23 | 0.42 | 0.11 | 0.79 |
| PER | 26.1 | 20.2 | 42.0 | 54.5 | 30.4 | 116.1 | 63.6 |
| % yoy | | | | | | | |
| Net sales | 106.7 | 616.9 | 132.8 | 142.4 | 127.8 | 32.8 | 4.6 |
| EBITDA | 95.6 | 607.1 | 122.4 | 126.7 | 108.0 | 30.9 | 0.2 |
| Other Income | (26.8) | 117.9 | 27.8 | 329.8 | 771.6 | 511.1 | 300.8 |
| Depreciation | 106.9 | 276.7 | 102.5 | 92.4 | 92.3 | (0.2) | 0.9 |
| EBIT | 74.4 | 628.5 | 118.1 | 146.7 | 139.5 | 70.6 | 15.1 |
| Interest | 183.2 | 720.4 | 188.7 | 413.8 | 504.7 | 106.0 | 77.1 |
| PBT | 1.8 | 559.4 | 83.2 | 31.8 | 47.7 | 4.7 | (33.2) |
| PAT | 0.3 | 444.2 | 71.0 | 32.6 | 43.1 | (3.9) | (34.7) |
| Post-Minorities PAT | 0.3 | 444.2 | 71.0 | 32.6 | 43.1 | (3.9) | (34.0) |
| Reported PAT | (61.7) | NA | 76.0 | 5.2 | 43.1 | 35.1 | (33.9) |

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