

## Jaiprakash Associates

STOCK INFO.	BLOOMBERG
BSE Sensex: 9,314	JPA IN
	REUTERS CODE
S&P CNX: 2,829	JAIA.BO

17 January 2006

**Buy**
*Previous Recommendation: Buy*
**Rs376**

Equity Shares (m)	194.7
52-Week Range	404/170
1,6,12 Rel. Perf. (%)	13/40/58
M.Cap. (Rs b)	73.3
M.Cap. (US\$ b)	1.6

YEAR	NET SALES	PAT	EPS*	EPS*	P/E*	P/BV	ROE	ROCE	EV/	EV/
END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
3/05A	28,015	2,109	12.0	-18.6	31.4	5.4	18.3	12.9	3.5	18.8
3/06E	33,317	2,876	14.8	23.4	25.5	3.3	16.6	13.1	2.7	14.3
3/07E	36,670	4,878	25.0	69.6	15.0	2.8	20.2	15.7	2.6	10.8

\* Excluding extra ordinaries

- During 3QFY06, Jaiprakash reported revenues of Rs8b (up 20.4% YoY) and net profit of Rs570m (up 26.7% YoY). This is largely in line with our estimates: revenue Rs8.3b and net profit Rs607m.
- E&C revenues is up 10% YoY to Rs5.1b; E&C order book at December 2005 is at Rs82b, ensuring revenue visibility to FY09. Cement business revenues grew 30% YoY. However, EBIT per ton declined to Rs197 in 3QFY06 (Rs222 during 3QFY05), due to lower capacity utilization at the expanded capacity, resulting in increased fixed costs and depreciation.
- The company plans to raise US\$200m (€165m) through an FCCB issue, by end-February 2006. A significant part of the fund expected to be raised will be: (1) utilized to finance announced Rs15b capex in cement (post FY07) and (2) equity contribution towards hydro-power build-own operate and transfer (BOOT) projects.
- During FY05-FY08E, we expect Jaiprakash to register 39% net profit CAGR growth, driven largely by cement. Our sum-of-parts methodology denotes a price target of Rs436/share. We do not include the value unlocking potential by Taj Expressway, Karcham Wangtoo (1,000mW) and hydro BOOT projects in Arunachal Pradesh (2,100mW). We recommend **Buy**.

**QUARTERLY PERFORMANCE**

(Rs Million)

	FY05				FY06				FY05	FY06E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
<b>Sales</b>	<b>7,320</b>	<b>6,160</b>	<b>6,620</b>	<b>7,200</b>	<b>8,170</b>	<b>6,720</b>	<b>7,970</b>	<b>10,457</b>	<b>28,015</b>	<b>33,317</b>
Change (%)					11.6	9.1	20.4	45.2	15.0	18.9
<b>EBITDA</b>	<b>1,320</b>	<b>1,353</b>	<b>1,170</b>	<b>1,697</b>	<b>1,550</b>	<b>1,390</b>	<b>1,670</b>	<b>1,760</b>	<b>5,221</b>	<b>6,370</b>
Change (%)					17.4	2.7	42.7	3.7	9.4	22.0
As of % Sales	18.0	22.0	17.7	23.6	19.0	20.7	21.0	16.8	18.6	19.1
Depreciation	300	330	320	410	370	370	380	305	1,333	1,425
Interest	510	560	580	470	650	610	670	703	2,134	2,633
Other Income	300	224	430	450	430	660	280	528	1,728	1,898
Extra-ordinary income	0	104	0	-297	3,600	0	0	0	-194	3,600
<b>PBT</b>	<b>810</b>	<b>790</b>	<b>700</b>	<b>970</b>	<b>4,560</b>	<b>1,070</b>	<b>900</b>	<b>1,281</b>	<b>3,288</b>	<b>7,811</b>
Tax	290	360	250	690	420	330	330	256	1,211	1,336
Effective Tax Rate (%)	35.8	45.6	35.7	71.1	9.2	30.8	36.7	20.0	36.8	17.1
<b>Reported PAT</b>	<b>520</b>	<b>430</b>	<b>450</b>	<b>280</b>	<b>4,140</b>	<b>740</b>	<b>570</b>	<b>1,026</b>	<b>2,076</b>	<b>6,476</b>
<b>Adj PAT</b>	<b>520</b>	<b>327</b>	<b>450</b>	<b>577</b>	<b>540</b>	<b>740</b>	<b>570</b>	<b>1,026</b>	<b>2,109</b>	<b>2,876</b>
% Change					3.8	126.6	26.7	77.7	-16.4	36.4

E: MOST Estimates

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Jaiprakash reported revenues of Rs8b (up 20.4% YoY) and net profit of Rs570m (up 26.7% YoY). This is largely in line with our estimates: revenue at Rs8.3b and net profit at Rs607m. During the quarter reported EBITDA increased 43% YoY to Rs1.7b, while operating margins increased 330bp to 21%. Better margins in construction is leading this improvement.

### Segmentwise analysis

Revenues of the engineering and construction (E&C) business increased 10% YoY during 3QFY06, to Rs5.1b. E&C order book as at December 2005 records Rs82b, ensuring revenue visibility to FY09. Over the next 6-9 months, we expect hydro-power projects, valued at Rs35b-45b to be awarded, of which we expect Jaiprakash to garner orders for Rs10b-12b.

Cement business revenues grew 30% YoY, driven by 16% volume growth and 11% increase in realizations. However, EBIT in absolute amount remained stagnant (up 4% YoY) at Rs290m, while EBIT per ton declined to Rs197/ton in 3QFY06 (Rs222/ton during 3QFY05). The primary reason for the decline in per ton profitability is the lower capacity utilization post the expanded capacity. This underutilization resulted in increased fixed costs and depreciation.

#### JAIPRAKASH ASSOCIATES-SEGMENT WISE ANALYSIS (RS M)

	1QFY05	2QFY05	3QFY05	4QFY05	1QFY06	2QFY06	3QFY06
<b>Revenues</b>							
Cement	2,480	2,230	2,330	3,360	3,100	2,560	3,020
Construction	5,190	4,190	4,650	4,480	5,480	4,470	5,130
Hotel	40	30	20	30	50	30	30
Un-allocated	20	300	90	110	3,680	370	150
<b>Total</b>	<b>7,730</b>	<b>6,750</b>	<b>7,090</b>	<b>7,980</b>	<b>12,310</b>	<b>7,430</b>	<b>8,330</b>
Less : Inter-segmental	110	80	40	250	110	50	80
<b>Total Sales</b>	<b>7,620</b>	<b>6,670</b>	<b>7,050</b>	<b>7,730</b>	<b>12,200</b>	<b>7,380</b>	<b>8,250</b>
<b>EBIT</b>							
Cement	350	170	280	410	520	300	290
Construction	1,070	1,380	1,360	1,260	1,300	1,200	1,340
Hotel	10	10	-	-	20	10	-
Un-allocated	-110	-210	-360	-200	3,430	170	-
<b>Total</b>	<b>1,320</b>	<b>1,350</b>	<b>1,280</b>	<b>1,470</b>	<b>5,270</b>	<b>1,680</b>	<b>1,630</b>

#### CEMENT BUSINESS PERFORMANCE

	1QFY05	2QFY05	3QFY05	4QFY05	1QFY06	2QFY06	3QFY06
Volumes (m ton)	1.2	1.1	1.3	1.5	1.4	1.2	1.5
Realization (Rs/ton)	2,102	2,065	1,849	2,211	2,153	2,065	2,054
EBIT (Rs/ton)	297	157	222	270	361	242	197

Source: Company

### Fund raising of €165m, through FCCB route

The company plans to raise US\$200m (€165m) through an FCCB issue and expects to complete this by end-February 2006. This translates to a possible equity dilution of ~12% (at CMP of Rs376/share). We do not factor in the probable equity dilution in our estimates, as the issue price is not yet finalized. A significant share of the funds raised will be utilized: (1) to finance announced capex of Rs15b in the cement sector (post FY07); and (2) equity contribution toward hydro-power projects on a build-own-operate and transfer (BOOT) basis.

### Karcham Wangtoo (1,000mW) to achieve financial closure by mid-February 2006

The Karcham Wangtoo (1,000mW) project is expected to achieve financial closure by mid-February 2006. Of the total debt requirement of Rs38b, Rs22b is already sanctioned. Further, company has already invested Rs6b as equity contribution in the project and has also signed a memorandum of understanding with Power Grid Corporation to set up inter state transmission network from Karcham Wangtoo through the joint venture.

**Net profit CAGR of 39% (FY05-FY08E); recommend Buy**

During FY05-FY08E, we expect Jaiprakash to register 39% CAGR growth in net profit, driven largely by the cement business. Our sum-of-parts methodology indicates a price target of Rs436/share. We ignore the value unlocking potential by Taj Expressway, Karcham Wangtoo (1,000mW)

and hydro BOOT projects in Arunachal Pradesh (2,100mW). We recommend **Buy**.

At the CMP of Rs376, Jaiprakash trades at a PER of 25.5x FY06E and 15x FY07E. Adjusting for the value of BOT projects, it quotes at a PER of 14.3x FY06E and 10.9x FY07E. We maintain **Buy**.

## Jaiprakash Associates: an investment profile

### Company description

Jaiprakash Associates (JAL), is a diversified conglomerate with interests in: E&C, hydro-power generation, cement, and hospitality. It is executing contracts in 54% of hydro-power capacity during the Tenth Plan (FY05-FY07). JAL has three Build-Own-Operate hydro-power subsidiaries, with a combined portfolio of 1,700mW.

### Key investment arguments

- ✍ Best positioned to capture increasing hydro-power investments in India, executing contracts in 54% of hydro power capacity during the Tenth Plan (FY05-FY07). E&C order book of Rs82b provides revenue visibility to FY09.
- ✍ Cement would drive medium-term earnings growth. Setting up greenfield 3m ton unit in Himachal Pradesh, (March '07). Captive power projects to be commissioned by March '06 would also lower production cost.
- ✍ JAL has a hydro power BOOT portfolio of 1,700mW, at various stages. Received a letter of intent for 2,100mW on BOOT basis from the govt. of Arunachal Pradesh.

### Key investment risks

- ✍ Increased competition in E&C may put pressure on operating margins
- ✍ BOT projects depress initial RoE
- ✍ Hydro-power generation is not predictable

#### COMPARATIVE VALUATIONS

		JAIPRKASH	HIND.CONST.	GAMMON
P/E (x)	FY06E	25.5	26.6	30.7
	FY07E	15.0	15.0	16.6
P/BV (x)	FY06E	3.3	6.5	7.0
	FY07E	2.8	5.0	5.6
Div. Yield (%)	FY06E	1.1	0.8	0.4
	FY07E	1.3	1.1	0.7
EV/EBITDA (x)	FY06E	14.3	14.3	17.1
	FY07E	10.8	9.8	11.7

#### SHAREHOLDING PATTERN (%)

	DEC.05	SEP.05	DEC.04
Promoters	43.8	44.9	45.5
Domestic Institutions	19.3	16.8	9.7
FII's/FDIs	18.1	18.3	19.4
Others	18.8	20.0	25.4

### Recent developments

- ✍ Fund raising of US\$200m through an FCCB issue
- ✍ Received Letter of Intent from Government of Arunachal Pradesh for 2,100mW of hydro power projects on BOOT basis
- ✍ Board has approved capacity expansion of cement plant over a period of next 5 years with an outlay of Rs15b
- ✍ JV for development of coal mine blocks and setting up pit-head based 500mW thermal power project

### Valuations and view

- ✍ During FY05-FY08E, we expect JAL's PAT to register 39% CAGR, driven largely by the cement business
- ✍ At the CMP of Rs376, Jaiprakash trades at a PER of 25.5x FY06E and 15x FY07E. Adjusting for the value of BOT projects, it quotes at a PER of 14.3x FY06E and 10.9x FY07E. We maintain **Buy**.

### Sector view

- ✍ Positive on the prospects of increased investments in hydro power construction over the next 5 years
- ✍ Near term, the cement sector will continue to show impressive profitability. Post FY07, we expect that a significant increase in capacity will result in softening prices.
- ✍ BOT ventures could unlock sizable value.

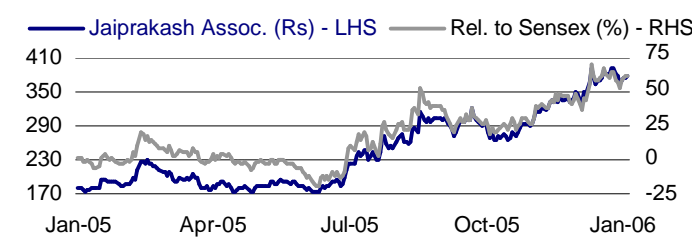
#### EPS: INQUIRE FORECAST VS CONSENSUS (RS)

	INQUIRE FORECAST	CONSENSUS FORECAST	VARIATION (%)
FY06	14.8	-	-
FY07	25.0	-	-

#### TARGET PRICE AND RECOMMENDATION

CURRENT PRICE (RS)	TARGET PRICE (RS)	UPSIDE (%)	RECO.
376	436	16.0	Buy

#### STOCK PERFORMANCE (1 YEAR)



**INCOME STATEMENT**

Y/E MARCH	2004	2005	2006E	2007E	2008E
<b>Net Sales</b>	<b>24,371</b>	<b>28,015</b>	<b>33,317</b>	<b>36,670</b>	<b>42,189</b>
Change (%)	-3.1	15.0	18.9	10.1	15.0
Total Expenses	19,598	22,794	26,946	27,894	32,305
<b>EBITDA</b>	<b>4,772</b>	<b>5,221</b>	<b>6,370</b>	<b>8,776</b>	<b>9,884</b>
% of Net Sales	19.6	18.6	19.1	23.9	23.4
Depreciation	1,271	1,333	1,425	1,796	1,837
Interest	2,047	2,134	2,633	2,515	2,767
Other Income	1,220	1,534	5,498	2,131	2,131
<b>PBT</b>	<b>2,675</b>	<b>3,288</b>	<b>7,811</b>	<b>6,597</b>	<b>7,411</b>
Tax	977	1,211	1,336	1,719	1,782
Rate (%)	36.5	36.8	17.1	26.1	24.0
<b>Reported PAT</b>	<b>1,697</b>	<b>2,076</b>	<b>6,476</b>	<b>4,878</b>	<b>5,629</b>
Extra-ord. Inc. (net of expense)	-826	-33	3,600	0	0
<b>Adjusted PAT</b>	<b>2,524</b>	<b>2,109</b>	<b>2,876</b>	<b>4,878</b>	<b>5,629</b>
Change (%)	20.2	-16.4	36.4	69.6	15.4

**BALANCE SHEET**

Y/E MARCH	2004	2005	2006E	2007E	2008E
Share Capital	1,762	1,762	1,947	1,947	1,947
Reserves	8,992	10,585	20,366	24,134	28,431
<b>Net Worth</b>	<b>10,754</b>	<b>12,348</b>	<b>22,314</b>	<b>26,081</b>	<b>30,378</b>
Loans	20,162	31,989	28,404	29,358	30,442
Deferred Tax Liability	4,038	4,826	4,826	4,826	4,826
<b>Capital Employed</b>	<b>34,955</b>	<b>49,162</b>	<b>55,543</b>	<b>60,265</b>	<b>65,646</b>
Gross Fixed Assets	25,170	31,117	34,581	43,581	44,581
Less: Depreciation	9,312	10,595	12,020	13,816	15,652
<b>Net Fixed Assets</b>	<b>15,858</b>	<b>20,522</b>	<b>22,561</b>	<b>29,765</b>	<b>28,929</b>
Capital WIP	6,830	3,964	5,500	500	500
Investments	7,543	11,920	11,533	16,533	16,533
<b>Curr. Assets</b>	<b>17,602</b>	<b>25,057</b>	<b>31,097</b>	<b>29,255</b>	<b>38,131</b>
Inventory	5,087	5,997	7,120	7,836	9,016
Debtors	2,854	3,703	4,403	4,846	5,576
Cash & Bank Balance	2,228	7,272	10,552	7,551	13,519
Loans & Advances	7,420	8,064	9,000	9,000	10,000
Other Current Assets	12	22	22	22	22
<b>Current Liab. &amp; Prov.</b>	<b>12,923</b>	<b>12,324</b>	<b>15,147</b>	<b>15,788</b>	<b>18,446</b>
Creditors	3,839	4,079	5,161	5,251	6,174
Other Liabilities	8,224	6,921	8,586	8,736	10,272
Provisions	860	1,325	1,400	1,800	2,000
<b>Net Current Assets</b>	<b>4,678</b>	<b>12,733</b>	<b>15,950</b>	<b>13,467</b>	<b>19,685</b>
Misc. Expenses	46	25	0	0	0
<b>Application of Funds</b>	<b>34,955</b>	<b>49,162</b>	<b>55,543</b>	<b>60,265</b>	<b>65,646</b>

E: MOST Estimates

**RATIOS**

Y/E MARCH	2004	2005	2006E	2007E	2008E
<b>Basic (Rs)</b>					
<b>Adjusted EPS</b>	<b>14.3</b>	<b>12.0</b>	<b>14.8</b>	<b>25.0</b>	<b>28.9</b>
Growth (%)	20.2	-16.4	23.4	69.6	15.4
Cash EPS	215	19.5	22.1	34.3	38.3
Book Value	60.2	69.4	114.6	133.9	156.0
DPS	15	2.4	4.0	5.0	6.0
Payout (incl. Div. Tax.)	17.6	23.2	13.7	22.8	23.7
<b>Valuation (x)</b>					
P/E (standalone)	26.3	31.4	25.5	15.0	13.0
Cash P/E	17.5	19.3	17.0	11.0	9.8
EV/EBITDA	19.1	18.8	14.3	10.8	9.1
EV/Sales	3.7	3.5	2.7	2.6	2.1
Price/Book Value	6.2	5.4	3.3	2.8	2.4
Dividend Yield (%)	0.4	0.6	1.1	1.3	1.6
<b>Profitability Ratios (%)</b>					
RoE	25.2	18.3	16.6	20.2	19.9
RoCE	14.5	12.9	13.1	15.7	16.2
<b>Turnover Ratios</b>					
Debtors (Days)	43	48	48	48	48
Asset Turnover (x)	0.8	0.7	0.6	0.6	0.7
<b>Leverage Ratio</b>					
Debt/Equity (x)	19	2.6	13	1.1	10

**CASH FLOW STATEMENT**

Y/E MARCH	2004	2005	2006E	2007E	2008E
PBT before Extraordinary Item	<b>2,675</b>	<b>3,288</b>	<b>7,811</b>	<b>6,597</b>	<b>7,411</b>
Add : Depreciation	1,271	1,333	1,425	1,796	1,837
Interest	2,047	2,134	2,633	2,515	2,767
Less : Direct Taxes Paid	977	1,211	1,336	1,719	1,782
(Inc)/Dec in WC	565	-3,010	63	-519	-250
<b>CF from Operations</b>	<b>5,580</b>	<b>2,534</b>	<b>10,596</b>	<b>8,669</b>	<b>9,983</b>
(Inc)/Dec in FA	-6,243	-3,131	-5,000	-4,000	-1,000
(Pur)/Sale of Investments	-563	-4,377	387	-5,000	0
<b>CF from Investments</b>	<b>-6,806</b>	<b>-7,508</b>	<b>-4,613</b>	<b>-9,000</b>	<b>-1,000</b>
(Inc)/Dec in Networth	660	809	4,403	0	0
(Inc)/Dec in Debt	2,895	11,826	-3,585	954	1,084
Less : Interest Paid	2,047	2,134	2,633	2,515	2,767
Dividend Paid	298	482	888	1,110	1,332
<b>CF from Fin. Activity</b>	<b>1,210</b>	<b>10,019</b>	<b>-2,703</b>	<b>-2,671</b>	<b>-3,015</b>
<b>Inc/Dec of Cash</b>	<b>-16</b>	<b>5,044</b>	<b>3,280</b>	<b>-3,002</b>	<b>5,968</b>
Add: Beginning Balance	2,244	2,228	7,272	10,552	7,551
<b>Closing Balance</b>	<b>2,228</b>	<b>7,272</b>	<b>10,552</b>	<b>7,551</b>	<b>13,519</b>



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1. Analyst ownership of the stock
2. Group/Directors ownership of the stock
3. Broking relationship with company covered

**Jaiprakash Associates**

No  
No  
No

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