

# Jaiprakash Power Ventures (JAIHYD)

**Rs 64**

## WHAT'S CHANGED...

|                    |           |
|--------------------|-----------|
| PRICE TARGET ..... | Unchanged |
| EPS (FY11E).....   | Unchanged |
| EPS (FY12E) .....  | Unchanged |
| RATING.....        | Unchanged |

## In line, next trigger capacity addition in FY12E...

Jaiprakash Ventures Ltd (JPVL) reported Q2FY11 results which were in line with our estimates. The sales came in at Rs 282 crore, up ~35.9% QoQ. On a YoY basis, topline grew 160.6%, mainly on account of the merger of JPVL with Jaiprakash Hydro Power (JHPL), which resulted in an operational capacity of 400 MW (Vishnuprayag hydro power plant). Similarly, the EBITDA increased by 143.4% YoY. Interest cost for the company increased to Rs 111.8 crore (up 504.7% YoY) on account of securitisation of receivables of its operating projects (Baspa-II and Vishnuprayag power plants). The company reported a PAT of Rs 87 crore up 39.4% YoY and 127.4% QoQ.

### Commissioning of 1700 MW in FY12E

We expect the company to be able to add 1500 MW in FY12E, which includes 1000 MW of hydro power plant at Karcham Wangtoo and 500 MW at Bina, MP.

### Carbon credits – a steady revenue stream, going forward

In Q2FY11, the company booked Rs 9.25 crore as income from sale of verified emission reduction (VERs). JPVL is expected to have three hydro power projects (1,700 MW) operational by FY16E and four thermal power (7,850 MW) projects. Six out of the seven plants will be eligible for receiving the benefit under the carbon mechanism. The company is entitled to 2.3 million VERs per annum on the existing 700 MW project. The realisation from this certificate is close to €3.5-4.0 per VER.

## Valuation

At the CMP of Rs 64, the stock offers ~10% upside potential. JPVL has 700 MW of plants operational, which comprises Rs 16 per share and ~23% in overall value. Expansion plans form the remaining portion of overall value. The execution capability of parent company JAL renders significant comfort to upcoming expansion plans. Thus, we maintain our **ADD** rating on the stock with a target price of Rs 71.

### Exhibit 1: Financial Performance (Standalone)

| (Rs Crore)               | Q2FY11 | Q2FY11E | Q2FY10 | Q1FY11 | QoQ (Chg %) | YoY (Chg %) |
|--------------------------|--------|---------|--------|--------|-------------|-------------|
| <b>Net Sales</b>         | 282.6  | 275.6   | 108.4  | 207.9  | 35.9        | 160.6       |
| <b>EBITDA</b>            | 244.3  | 201.2   | 100.4  | 178.9  | 36.6        | 143.4       |
| <b>EBITDA Margin (%)</b> | 86.5   | 73.0    | 92.6   | 86.1   | 40 bps      | -450 bps    |
| <b>Depreciation</b>      | 23.9   | 49.7    | 12.4   | 23.7   | 1.1         | 92.3        |
| <b>Interest</b>          | 111.8  | 59.6    | 18.5   | 97.2   | 15.0        | 504.7       |
| <b>Reported PAT</b>      | 87.0   | 91.1    | 62.4   | 38.3   | 127.2       | 39.4        |
| <b>EPS (Rs)</b>          | 0.4    | 0.4     | 0.7    | 0.1    | 591.7       | -43.9       |

Source: Company, ICICIdirect.com Research

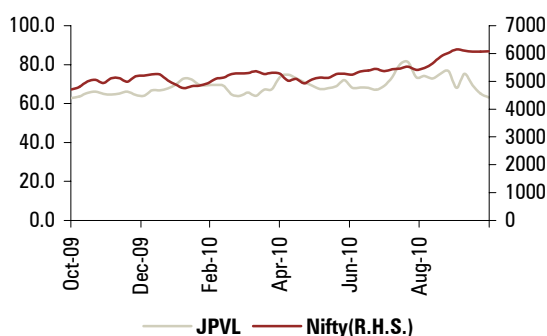
| Rating matrix    |              |
|------------------|--------------|
| Rating           | : <b>Add</b> |
| Target           | : Rs 71      |
| Target Period    | : 12 months  |
| Potential Upside | : 10%        |

| Key Financials    |       |       |       |        |
|-------------------|-------|-------|-------|--------|
| (Rs Crore)        | FY09  | FY10  | FY11E | FY12E  |
| <b>Net Sales</b>  | 288.9 | 690.7 | 688.0 | 2181.7 |
| <b>EBITDA</b>     | 273.3 | 608.5 | 664.9 | 2098.2 |
| <b>Net Profit</b> | 142.9 | 241.8 | 270.9 | 644.1  |

| Valuation summary    |      |       |       |       |
|----------------------|------|-------|-------|-------|
|                      | FY09 | FY10E | FY11E | FY11E |
| <b>PE (x)</b>        | 22.0 | 55.5  | 53.1  | 16.7  |
| <b>Target PE (x)</b> | 24.4 | 61.5  | 57.3  | 18.0  |
| <b>EV/EBITDA (x)</b> | 64.5 | 29.0  | 26.5  | 8.4   |
| <b>P/BV (x)</b>      | 2.9  | 4.0   | 3.7   | 3.1   |
| <b>RoNW (%)</b>      | 13.3 | 7.2   | 7.5   | 20.2  |
| <b>RoCE (%)</b>      | 11.7 | 5.3   | 4.7   | 10.3  |

| Stock data            |                |
|-----------------------|----------------|
| Market Capitalisation | Rs 13412 Crore |
| Debt (FY10E)          | Rs 6811 Crore  |
| Cash (FY10E)          | Rs 2587 Crore  |
| EV                    | Rs 17637 Crore |
| 52 week H/L           | 84 / 53.7      |
| Equity capital        | Rs 2095 cr     |
| Face value            | Rs 10          |
| MF Holding (%)        | 0.3            |
| FII Holding (%)       | 1.3            |

### Price movement



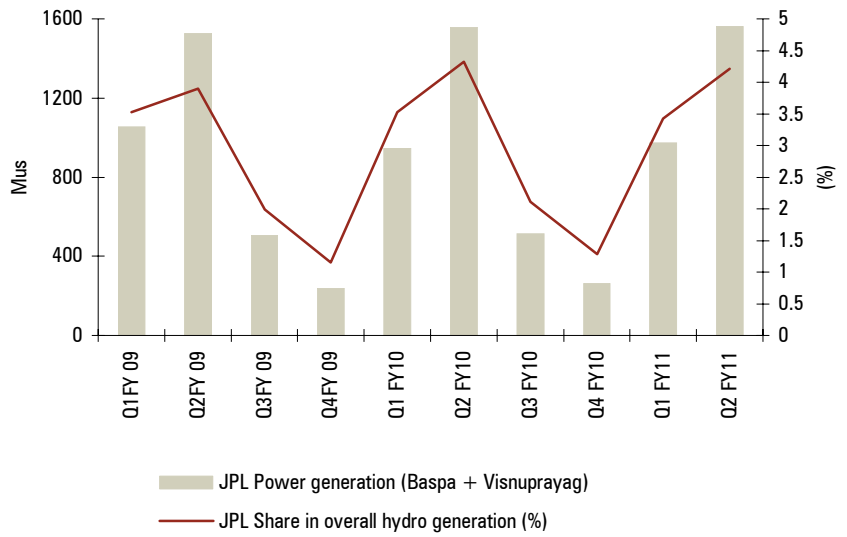
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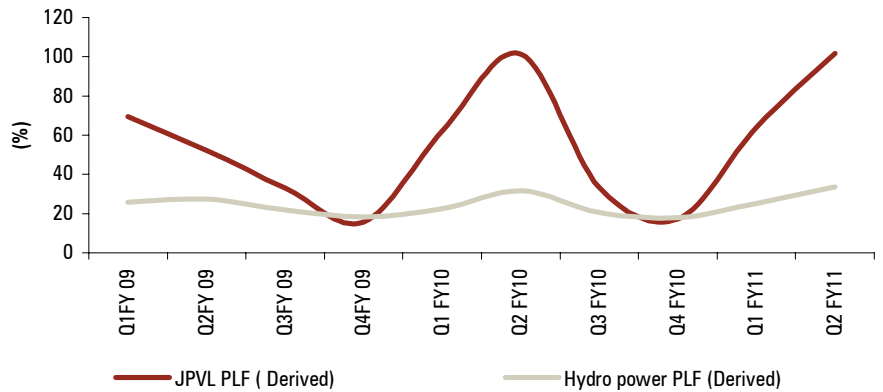
**Exhibit 2: Trend in quarterly generation of operational plants**



JPVL had ~4.21% market share in overall hydro generation in Q2FY11. The company generated 521 MU in Q2FY11

Source: CEA, ICICIdirect.com Research

**Exhibit 3: Quarterly trend in PLF for hydro plants and JPVL**



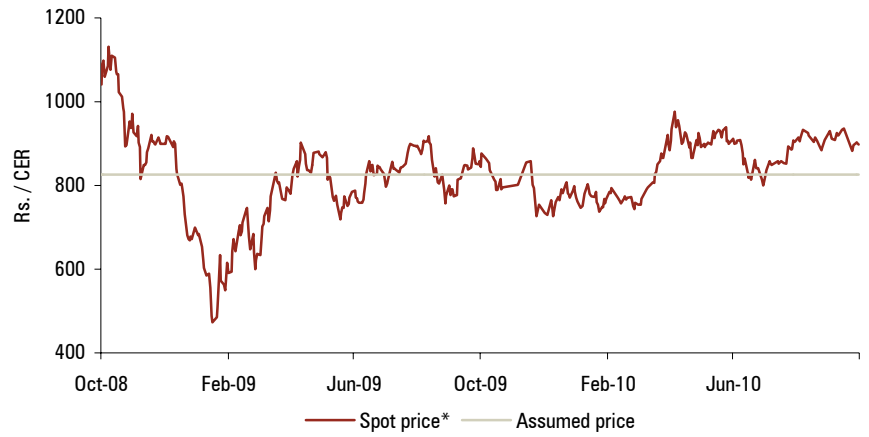
In Q2FY11, the PLF of JPVL stood at ~101.65%, much higher than ~33.74% overall hydro power PLF

Source: CEA, ICICIdirect.com Research

**Upside from carbon credits**

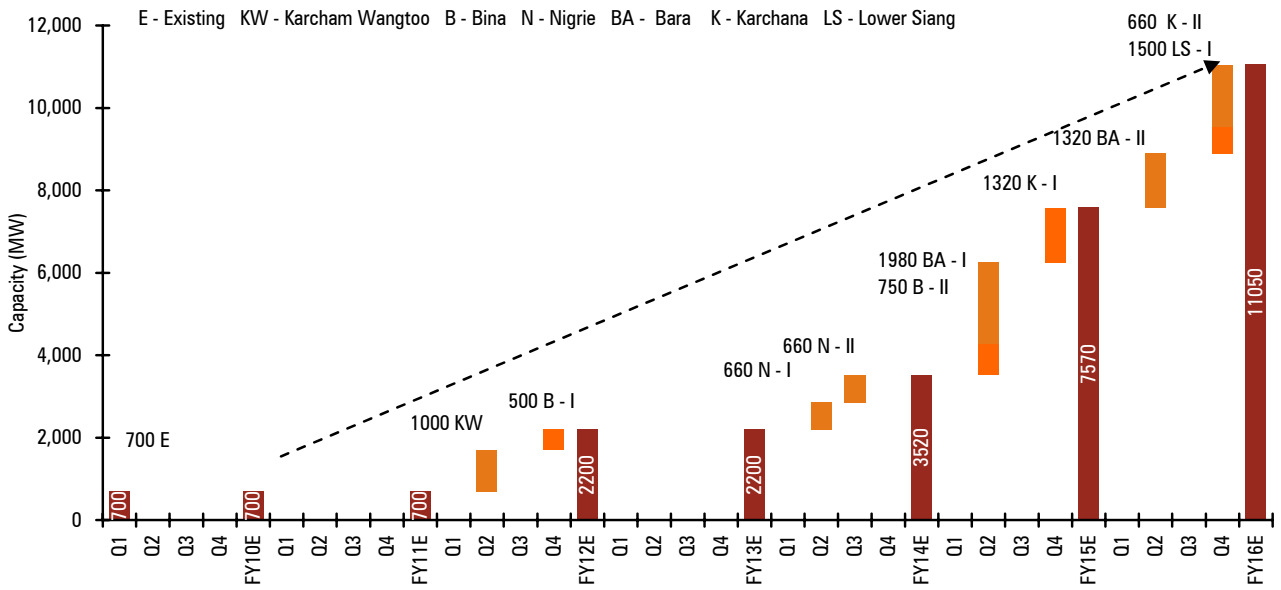
In Q2FY11, the company booked Rs 9.25 crore as income from the sale of verified emission reduction (VERs). JPVL is expected to have three hydro power projects (1,700 MW) operational by FY16E and four thermal power (7,850 MW) projects. Six out of the seven plants will be eligible for receiving the benefit under the carbon mechanism. The company is entitled to 2.3 million VERs per annum on the existing 700 MW project. The realisation from this certificate is close to €3.5-4.0 per VER.

**Exhibit 4: Upside from carbon credits**



Source: Bloomberg, ICICIdirect.com Research

**Exhibit 5: Capacity addition schedule till FY16E**



Source: ICICIdirect.com Research

## Valuation

At the CMP of Rs 64, the stock offers ~10% upside potential. We expect the company to be able to add 1500 MW in FY12E, which includes 1000 MW of hydro power plant at Karcham Wangtoo and 500 MW at Bina, MP. This capacity addition would be a big boost to revenues in FY12. JPVL has 700 MW of plants operational, which comprises Rs 16 per share and ~23% in overall value. Expansion plans form the remaining portion of overall value. The execution capability of parent company (JAL) renders significant comfort to upcoming expansion plans. Thus, we maintain our **ADD** rating on the stock with a target price of Rs 71.

**Exhibit 6: Valuation for generation and transmission vertical**

| Projects            | Fuel         | Capacity (MW) | Project Cost  | Ownership (%) | JPVL's share (MW) | Value per share | Equity Value - JPVL | M Cap / MW (Rs Cr) | Cost of Equity (%) |
|---------------------|--------------|---------------|---------------|---------------|-------------------|-----------------|---------------------|--------------------|--------------------|
| Baspa               | Hydro        | 300           | 1,545         | 100           | 300               | 7               | 1,451               | 4.8                | 12                 |
| Vishnu Prayag       | Hydro        | 400           | 1,720         | 100           | 400               | 9               | 1,859               | 4.6                | 12                 |
| Karcham Wangtoo     | Hydro        | 1,000         | 7,150         | 57            | 569               | 9               | 1,829               | 3.2                | 13                 |
| Bina - I            | Coal         | 500           | 2,753         | 100           | 500               | 6               | 1,154               | 2.3                | 13                 |
| Bina - II           | Coal         | 750           | 4,125         | 100           | 750               | 1               | 253                 | 0.3                | 13                 |
| Nigrie              | Coal         | 1,320         | 8,118         | 100           | 1,320             | 9               | 1,927               | 1.5                | 13                 |
| Bara - I            | Coal         | 1,980         | 11,088        | 100           | 1,980             | 8               | 1,593               | 0.8                | 13                 |
| Bara - II           | Coal         | 1,320         | 7,392         | 100           | 1,320             | 6               | 1,361               | 1.0                | 13                 |
| Karchana - I        | Coal         | 1,320         | 7,392         | 100           | 1,320             | 5               | 953                 | 0.7                | 13                 |
| Karchana - II       | Coal         | 660           | 3,696         | 100           | 660               | 6               | 1,296               | 2.0                | 13                 |
| Lower Siang         | Hydro        | 2,700         | 13,500        | 89            | 2,403             | 4               | 770                 | 0.3                | 16                 |
| Hirong              | Hydro        | 500           | 2,500         | 89            | 445               | 0               | 87                  | 0.2                | 16                 |
| Kynshi - II         | Hydro        | 450           | 2,250         | 74            | 333               | 0               | 59                  | 0.2                | 16                 |
| Umngot - I          | Hydro        | 270           | 1,350         | 74            | 200               | 0               | 52                  | 0.3                | 16                 |
| <b>Transmission</b> |              |               |               |               |                   |                 |                     |                    |                    |
| Jaypee Power Grid   | Transmission | 217kms        | 1,000         | 76            | 165 kms           | 1               | 456                 |                    |                    |
| <b>Total</b>        |              | <b>13,470</b> | <b>75,579</b> |               | <b>12,500</b>     | <b>71</b>       | <b>15,157</b>       | <b>1.2</b>         |                    |

Source: ICICIdirect.com Research

## ICICIdirect.com Coverage universe (Power)

|                        |                  |                 |              |              | Sales<br>(Rs cr) | EPS<br>(Rs) | PE<br>(x) | EV/E<br>(x) | PB<br>(x) | RoNW<br>(%) | RoCE<br>(%) |
|------------------------|------------------|-----------------|--------------|--------------|------------------|-------------|-----------|-------------|-----------|-------------|-------------|
| <b>NTPC</b>            |                  |                 |              |              |                  |             |           |             |           |             |             |
| <b>Idirect Code</b>    | <b>NTPC</b>      | <b>CMP</b>      | <b>193</b>   | <b>FY10</b>  | 48,256.4         | 10.7        | 18.0      | 13.9        | 2.6       | 14.9        | 13.0        |
|                        |                  | <b>Target</b>   | <b>226</b>   | <b>FY11E</b> | 52,107.9         | 10.6        | 18.3      | 16.0        | 2.4       | 13.7        | 11.6        |
| <b>Mcap(Rs cr)</b>     | <b>164,084.7</b> | <b>% Upside</b> | <b>17.1</b>  | <b>FY12E</b> | 61,952.0         | 10.9        | 17.6      | 10.4        | 2.2       | 13.1        | 11.1        |
| <b>Neyveli Lignite</b> |                  |                 |              |              |                  |             |           |             |           |             |             |
| <b>Idirect Code</b>    | <b>NEYLIG</b>    | <b>CMP</b>      | <b>161</b>   | <b>FY10</b>  | 4,121.0          | 7.4         | 21.7      | 21.2        | 2.6       | 12.6        | 7.4         |
|                        |                  | <b>Target</b>   | <b>151</b>   | <b>FY11E</b> | 4,462.0          | 7.4         | 21.4      | 21.4        | 2.3       | 11.5        | 7.7         |
| <b>Mcap(Rs cr)</b>     | <b>26,340.0</b>  | <b>% Upside</b> | <b>(6.3)</b> | <b>FY12E</b> | 5,194.6          | 8.3         | 18.9      | 18.9        | 2.2       | 11.9        | 8.0         |
| <b>PTC</b>             |                  |                 |              |              |                  |             |           |             |           |             |             |
| <b>Idirect Code</b>    | <b>POWTRA</b>    | <b>CMP</b>      | <b>135</b>   | <b>FY10</b>  | 7,770.3          | 3.2         | 25.6      | 14.5        | 1.6       | 5.1         | 7.2         |
|                        |                  | <b>Target</b>   | <b>UR</b>    | <b>FY11E</b> | 9,976.3          | 4.4         | 18.7      | 9.4         | 1.5       | 6.0         | 8.3         |
| <b>Mcap(Rs cr)</b>     | <b>3,293.8</b>   | <b>% Upside</b> | <b>-</b>     | <b>FY12E</b> | 10,701.4         | 7.1         | 11.6      | 4.2         | 1.4       | 9.3         | 12.9        |
| <b>NHPC</b>            |                  |                 |              |              |                  |             |           |             |           |             |             |
| <b>Idirect Code</b>    | <b>NHPC</b>      | <b>CMP</b>      | <b>31.5</b>  | <b>FY10</b>  | 5,227.3          | 102.0       | 0.3       | 11.8        | 1.5       | 9.3         | 8.7         |
|                        |                  | <b>Target</b>   | <b>33</b>    | <b>FY11E</b> | 4,297.1          | 102.0       | 0.3       | 15.2        | 1.5       | 4.8         | 5.3         |
| <b>Mcap(Rs cr)</b>     | <b>36,902.2</b>  | <b>% Upside</b> | <b>4.9</b>   | <b>FY12E</b> | 5,969.9          | 245.0       | 0.1       | 10.9        | 1.5       | 6.4         | 6.3         |
| <b>JP Power</b>        |                  |                 |              |              |                  |             |           |             |           |             |             |
| <b>Idirect Code</b>    | <b>JAIHYD</b>    | <b>CMP</b>      | <b>64</b>    | <b>FY10</b>  | 676.7            | 1.2         | 53.3      | 30.7        | 4.3       | 6.7         | 10.7        |
|                        |                  | <b>Target</b>   | <b>71</b>    | <b>FY11E</b> | 724.0            | 1.3         | 49.5      | 27.5        | 4.0       | 7.5         | 5.5         |
| <b>Mcap(Rs cr)</b>     | <b>15403.2</b>   | <b>% Upside</b> | <b>10.9</b>  | <b>FY12E</b> | 2,405.2          | 4.1         | 15.5      | 8.7         | 3.4       | 15.1        | 12.0        |

Source: Company, ICICIdirect.com Research

## RATING RATIONALE

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