

Jaiprakash Power Ventures (JPVL)

Rs62
OUTPERFORMER

RESULT NOTE

Mkt Cap: Rs131bn; US\$2.9bn

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Result: Q2FY11

Comment: Above estimates led by higher incentives and higher other income.

Last report: 27 July 2010 (Price Rs70; 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)	23.0
FY09	2,967	(1.4)	1,473	3.0	10.7	20.8
FY10	6,907	132.8	2,518	1.2	(59.9)	51.8
FY11E	7,157	3.6	1,564	0.7	(37.9)	83.5
FY12E	30,132	321.0	8,391	4.0	436.6	15.6

Highlights of Q2FY11 results

- Jaiprakash Power Ventures Ltd. (JPVL) has merged with Jaiprakash Hydro-power Ltd. (JHPL) and the amalgamation is effective from December 14 2009 with the appointed date being April 1 2009. The merged entity (now called JPVL) started reporting merged results since Q3FY10 which include 700MW of operating power capacity, while the previous year comparable results represent only 300MW of operating capacity. Hence, these results are not comparable with Q2FY10 results.
- JPVL's Q2FY11 earnings came in significantly ahead of estimates due to higher generation led incentives and recovery of arrears
- Revenues grew by 128%yoy to Rs2.5bn and were above our estimate of Rs1.9bn for the quarter. The surge in revenues was driven by the merger and inclusion of the operating results of the 400MW Vishnuprayag hydro power plant, higher incentives from secondary energy generation as well as due to income of Rs93m from sale of emission reduction certificates.
- Energy sales grew by 152%yoy to 1377m units lead by inclusion of energy sales from Vishuprayag hydro power plant. On a comparable basis (including energy sales from Vishuprayag in Q2FY10) energy sales grew by ~3% yoy. Plant Availability for Baspa and Vishnuprayag stood at 99.97% and 99.77% respectively.
- Reflecting the sharp jump in revenues EBIDTA grew by 108%yoy to Rs2.1bn, above our estimate of Rs1.7bn.
- Other income was significantly higher at Rs356m against Rs41m in Q2FY10 - above estimate of Rs70m led by interest on cash and bank balance of Rs27.5bn as also interest received on arrears from HPSEB

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- Interest expenses grew sharply to Rs1.1bn against Rs185m in Q2FY10 (marginally above our estimate of Rs1.05bn) 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 43.1%yoy to Rs870m above our estimate of Rs390m.
- JPVL provided for MAT of Rs217m during Q2FY11 with the effective tax rate being 19.9%

Valuations & View

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 in end FY11, we see long-term value creation potential in JPVL. JPVL's Q2FY11 earnings have been significantly ahead of our estimates led by higher generation linked incentives and higher income from cash balance. We have upgraded our FY11 estimates by 59% (no material change in FY12 earnings) to account for the higher than expected earnings in Q2FY11. Maintain Outperformer rating and a 18-month 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	-					23,200	100	23,300	NA
Vishnuprayag	14 x PER	400	-					7,153	100	7,153	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		141,878		109,600	
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		222,223		187,303	
Add: Cash										6,113	
Less: Debt in parent books (excluding FCCBs)										20,000	
Total Equity Value										173,416	
Value (Rs / Share) (based on fully diluted equity)										79	

Quarterly results

In Rsm	2Q10	3Q10	4Q10	FY10	1Q11	2Q11	FY11E
Total revenues	1,084	1,142	3,896	6,907	1,903	2,470	7,157
Operating expenses	81	174	500	829	290	383	862
EBITDA	1,004	968	3,396	6,078	1,613	2,087	6,295
OPM	92.6	84.7	87.2	88.0	84.8	87.8	88.0
Other income	41	49	141	271	176	356	905
Depreciation	124	240	464	951	237	239	960
EBIT	920	776	3,073	5,399	1,553	2,204	6,241
Interest	185	505	1,486	2,364	972	1,118	4,337
PBT	735	272	1,587	3,034	580	1,086	1,904
Tax	128	35	279	516	96	217	360
Tax rate	17.4	12.7	17.6	17.0	16.5	19.9	18.9
PAT	608	237	1,308	2,518	485	870	1,545
% yoy	-9.1	0.3	444.2	71.0	32.6	43.1	322.7
Post Minorities PAT	608	237	1,308	2,518	485	870	1,564
Extraordinary items		(68)	66	(3)	(100)		
Reported PAT	608	169	1,374	2,516	385	870	1,564
Shares O/S	491	491	2096	2,096	2,096	2,096	2,096
EPS	1.24	0.48	0.62	1.2	0.23	0.42	0.75
PER	12.6	32.3	24.9	51.8	67.3	37.5	83.5
% yoy							
Net sales	0.1	106.7	616.9	132.8	142.4	127.8	3.6
EBITDA	(2.3)	95.6	607.1	122.4	126.7	108.0	3.6
Other Income	(43.8)	(26.8)	117.9	27.8	329.8	771.6	233.6
Depreciation	7.0	106.9	276.7	102.5	92.4	92.3	0.9
EBIT	(6.4)	74.4	628.5	118.1	146.7	139.5	15.6
Interest	(19.5)	183.2	720.4	188.7	413.8	504.7	83.4
PBT	(2.5)	1.8	559.4	83.2	31.8	47.7	(37.2)
PAT	(9.1)	0.3	444.2	71.0	32.6	43.1	(38.7)
Post-Minorities PAT	(9.1)	0.3	444.2	71.0	32.6	43.1	(37.9)
Reported PAT	(9.1)	(61.7)	NA	76.0	5.2	43.1	(37.8)

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