

January 14, 2008

Rating	OP
Price	Rs469
Target Price	Rs430
Implied Upside	-8.3%
Sensex	20,728

(Prices as on January 14, 2008)

Trading Data

Market Cap. (Rs bn)	544
Shares o/s (m)	1160
Free Float	49.9%
Avg. Daily Vol ('000)	1,712.0
Avg. Daily Value (Rs m)	600.3

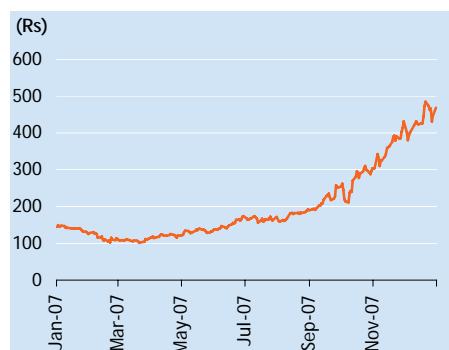
Major Shareholders

Promoters	47.6%
Foreign	28.8%
Domestic Inst.	15.5%
Public & Others	8.1%

Stock Performance

(%)	1M	6M	12M
Absolute	8.7	169.3	222.9
Relative	5.2	133.5	175.4

Price Performance (RIC: JAIA.BO, BB: JPA IN)



Source: Bloomberg

Jaiprakash Associates

Other income buoys profit

- PAT expands largely on account of other income:** Jaiprakash Associates (JPA) reported flat revenue at Rs9bn; however, on account of 250% increase in other income and lower tax rate of 20%, PAT for the quarter grew 53% to Rs1.56bn as against our expectations of Rs1.32bn. EBIDTA margin was lower by 200bps YoY at 24.8%, largely on account of lower margins in the construction business.
- Ganga-Balia Expressway project:** It has been reported that JPA has been declared L1 for the 1,000km Ganga-Balia Expressway project to be constructed from Greater Noida to Balia over four years. According to newspaper reports, JPA submitted a combined bid of Rs2.93bn for 15,000 acres of land in the region. The next lowest bid was at Rs5.9bn for a significantly higher land area. We await further details on the project and so haven't yet included the same in our valuation.
- Valuation and outlook:** Largely on account of slower than anticipated execution in construction business, we have revised downwards our FY08 revenue by 4%; however, on account of higher other income we maintain net profit estimate for FY08 at Rs5.3bn. At the current price (adjusting for Taj Expressway and BOOT projects), JPA is trading at 30.5x and 22.5x FY08E and FY09E EPS of Rs4.6 and Rs6.4 respectively. While valuations may seem expensive, we believe that value unlocking potential with regards to JP Infratech, JP Power Ventures and potential value from the Ganga-Balia Expressway would act as triggers to JPA and so we maintain **OUTPERFORMER**. We will be taking a relook at our price target and valuations.

Key financials (Y/e March)	FY07	FY08E	FY09E	FY10E
Revenue (Rs m)	34,715	40,962	61,213	80,523
Growth (%)	9.7	18.0	49.4	31.5
EBITDA (Rs m)	9,333	10,402	16,421	21,548
PAT (Rs m)	4,150	5,370	7,470	10,318
EPS (Rs)	3.6	4.6	6.4	8.9
Growth (%)	48.7	29.4	39.1	38.1
Net DPS (Rs)	0.72	0.78	0.84	0.91

Source: Company Data; PL Research

Profitability & valuation	FY07	FY08E	FY09E	FY10E
EBITDA margin (%)	26.9	25.4	26.8	26.8
RoE (%)	17.6	16.9	18.1	21.1
RoCE (%)	7.7	7.3	8.0	9.7
Adj. EV / sales (x)	11.3	10.3	7.1	5.4
Adj. EV / EBITDA (x)	41.9	40.5	26.6	20.2
Adj. PE (x)	41.7	32.2	23.2	16.8
P / BV (x)	17.9	12.5	10.9	9.2
Net dividend yield (%)	0.2	0.2	0.2	0.2

Source: Company Data; PL Research

Valuation adjusted for BOT & Real Estate

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Result snapshot

JPA reported flat revenue at Rs9bn in Q3FY08, with revenue growth in both cement and construction business flat at 1.2% and 2.3% respectively. While cement volume was at 1.64m tonne as against 1.71m tonne in Q3FY07, realisations grew by 5% at Rs3,040/tonne. Construction business has been witnessing flat growth during the year, largely on account of the fact that key projects being implemented by the company, namely Taj Expressway and Karcham Wangtoo, are in the early stages of development.

Overall EBIDTA margin during the quarter was lower at 24.8% as against 25.6% in Q2FY08 and 26.8% in Q3FY07. Cement margins continued to remain strong during the quarter, resulting in an EBIT growth of 20% and strong EBIT margin of 33.1% (at same level in Q2FY08) as against 28.3% in Q3FY07. However, construction margins were weak during the quarter resulting in 29% decline in EBIT at Rs650m. EBIT margin for the construction business was at 14.8% as against 20.1% in Q2FY08 and 21.2% in Q3FY07. While this is largely on account of the seasonality factor, as bulk of the order book under execution is HEPs, the company has been able to lease idle construction equipment at sites to earn lease income from construction equipment of Rs300m.

However, on account of strong other income of Rs1,020m, overall PBT grew 23.4% to Rs1.95bn. Other income included Rs590m from investments and Rs300m from lease of construction equipment. Consequently, PAT grew 53% YoY to Rs1.56bn.

Segmental revenue

(Rs m)

Y/e March	Q1FY07	Q2FY07	Q3FY07	Q4FY07	Q1FY08	Q2FY08	Q3FY08
Revenue							
Cement	4,080	4,270	4,950	6,020	5,170	4,560	5010
Construction	5,210	3,810	4,300	3,250	4,480	4,320	4400
EBIT							
Cement	1,050	1,140	1,400	2,110	1,740	1,420	1660
Construction	1,040	1,050	910	520	860	870	650
EBIT Margins (%)							
Cement	25.7	26.7	28.3	35	33.7	31.1	33.1
Construction	20	27.6	21.2	16	19.2	20.1	14.8

Source: Company Data, PL Research

Cement division performance

Y/e March	Q1FY07	Q2FY07	Q3FY07	Q4FY07	Q1FY08	Q2FY08	Q3FY08
Cement revenue (Rs m)	4,080	4,270	4,950	6,020	5,170	4,560	5,010
<i>YoY gr. (%)</i>	<i>31.6</i>	<i>67.5</i>	<i>62.8</i>	<i>45.8</i>	<i>26.7</i>	<i>11.8</i>	<i>1.21</i>
Volume (m tonne)	1.6	1.5	1.7	2	1.7	1.5	1.648
<i>YoY gr. (%)</i>	<i>9.0</i>	<i>23.4</i>	<i>16.3</i>	<i>9.6</i>	<i>6.4</i>	<i>5.5</i>	<i>(3.6)</i>
Realisation/tonne	2,599	2,791	2,895	3,087	3,095	3,076	3,040
<i>YoY gr. (%)</i>	<i>20.7</i>	<i>35.7</i>	<i>40</i>	<i>33.1</i>	<i>19.1</i>	<i>18.3</i>	<i>5.0</i>
Cement EBIT (Rs m)	1,050	1,140	1,400	2,110	1,740	1,420	1,660
<i>EBIT margins (%)</i>	<i>25.7</i>	<i>26.7</i>	<i>28.3</i>	<i>35</i>	<i>33.7</i>	<i>31.2</i>	<i>33.1</i>
EBIT/tonne	669	745	819	1,082	1,042	958	1007

Source: Company Data, PL Research

Ganga-Balia Expressway

It has been reported that JPA has been awarded the Rs300bn Ganga-Balia Expressway project, to be built from Greater Noida to Balia. The total length of the expressway will be 1,000km and will be completed in four years.

The entire stretch is divided into four sectors - Greater Noida to Fatehgarh (253km), Fatehgarh to Dalmau (305km), Dalmau to Aurai of (211km) and Aurai to Balia (278km).

JPA is reported to have submitted a combined bid at Rs2.93bn for all the four sectors totalling real estate of 15,000 acres.

We await further details on the project and so have yet not included the project in our overall valuations.

Order book

JPA has a construction order book of Rs115bn, which is 6.7x FY07 construction revenue of the company. The order book comprises hydro-electric power (HEP) and expressway projects. Key projects include the Rs50bn Taj Expressway, Rs37bn Karcham Wangtoo HEP, Rs19.50bn Srisailam tunnel and the Rs5.5bn Baglihar-II HEP.

Additional order intake potential exists from the Arunachal Pradesh HEPs and award of the Ganga-Balia Expressway Construction (contract value of Rs300bn). JPA has signed a MoU with the government of Arunachal Pradesh to develop HEPs, which alone have a contracting potential of Rs85-90bn for the company.

Taj Expressway

Construction work on the Taj Expressway project has commenced; however, land acquisition for the expressway is only expected to be completed by the end of next month. The company is targeting to complete the expressway project by 2010.

The management has indicated a development potential of approximately 81 million sq.ft, 1,250 acres from the Noida section and an overall development potential of approx. 400 million sq.ft. across five land parcels. We have assumed a development period of 15 years for Noida and 15-18 years in the other locations.

Taj Expressway land development snapshot

	Acres	Development potential (m sq.ft.)	Land status	Wt. average blended base rates *	Wt average blended CoC (Rs/sq.ft.)*	NPV (Rs m)
Noida	1,250	81	Acquired 618 acres, balance to be allocated	6,100	1,500	137,857
Dhankaur	1,250	81	To be allocated	3,000	1,000	45,000
Jewar	1,250	81	To be allocated	2,500	1,000	30,711
Mathura	1,250	81	To be allocated	1,500	1,000	9,215
Agra	1,250	81	To be allocated	1,500	1,000	9,215
Total	6,250	408				231,997

Source: Company Data, PL Research

* These rates are blended rates (residential, commercial and retail)

JP Power Ventures

Jaiprakash Power Ventures (JPVL) has filed draft Red Herring Prospectus with SEBI. Currently the company has two power assets, one operational HEP (Vishnuprayag) of 400MW in Uttarakhand and another 1000MW (Nigrie) coal-fired thermal power plant (Nigrie) in Madhya Pradesh which is in the pre-operative stage.

After obtaining the requisite approvals, JPVL would be looking at implementing the following projects, namely, 2025MW HEP on Siang River, East Siang district and 500MW HEP on Siyom river, West Siang district in Arunachal Pradesh on BOOT basis; setting up of 1000MW thermal power project linked to coal mines at Amelia Coal Block in Sidhi and Dongri Tall-II in MP and investment in the share capital of Jaypee Karcham Hydro Corporation Limited to the extent of Rs9.3bn (55.36% of the paid-up equity capital). JPA holds 80% stake in JPVL.



Q3FY08 result overview

(Rs m)

Y/e March	Q3FY08	Q3FY07	YoY gr. (%)	Q2FY08	9MFY08	9MFY07	YoY gr. (%)
Net sales	9,000	9,020	(0.2)	8,620	26,890	25,670	4.8
Expenditure							
Construction, mfg. & others	6,200	6,180	0.3	5,830	18,190	18,290	(0.5)
<i>% of net sales</i>	<i>68.9</i>	<i>68.5</i>		<i>67.6</i>	<i>67.6</i>	<i>71.3</i>	
Personnel cost	570	420	35.7	580	1,870	1,140	64.0
<i>% of net sales</i>	<i>6.3</i>	<i>4.7</i>		<i>6.7</i>	<i>7.0</i>	<i>4.4</i>	
Total expenditure	6,770	6,600	2.6	6,410	20,060	19,430	3.2
EBITDA	2,230	2,420	(7.9)	2,210	6,830	6,240	9.5
<i>Margin (%)</i>	<i>24.8</i>	<i>26.8</i>		<i>25.6</i>	<i>25.4</i>	<i>24.3</i>	
Other income	1,020	290	251.7	600	2,400	1,060	126.4
Depreciation	510	430	18.6	460	1,420	1,200	18.3
EBIT	2,740	2,280	20.2	2,350	7,810	6,100	28.0
Interest	790	700	12.9	840	2,420	1,920	26.0
PBT	1,950	1,580	23.4	1,510	5,390	4,180	28.9
Total tax	390	560	(30.4)	470	1,390	1,500	(7.3)
<i>% PBT</i>	<i>20.0</i>	<i>35.4</i>		<i>31.1</i>	<i>25.8</i>	<i>35.9</i>	
Recurring PAT	1,560	1,020	52.9	1,040	4,000	2,680	49.3



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PL's Recommendation Nomenclature

BUY	: > 15% Outperformance to BSE Sensex	Outperformer (OP)	: 5 to 15% Outperformance to Sensex
Market Performer (MP)	: -5 to 5% of Sensex Movement	Underperformer (UP)	: -5 to -15% of Underperformance to Sensex
Sell	: <-15% Relative to Sensex		
Not Rated (NR)	: No specific call on the stock	Under Review (UR)	: Rating likely to change shortly

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