

RESULTS REVIEW

Jaiprakash Associates Ltd

Hold

Share Data

Market Cap	Rs. 519.7 bn
Price	Rs. 473.35
BSE Sensex	20,812.7
Reuters	JAIA.BO
Bloomberg	JPA IN
Avg. Volume (52 Week)	1.1 mn
52-Week High/Low	Rs. 510 / 86.59
Shares Outstanding	1,097.9 mn

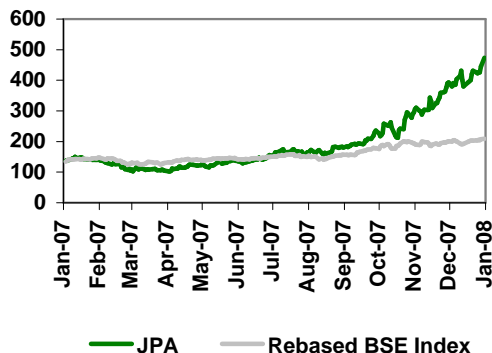
Valuation Ratios (Consolidated)

Year to 31 March	2008E	2009E
EPS (Rs.)	5.9	8.2
+/- (%)	16.4%	38.6%
PER (x)	79.8x	57.6x
EV/ Sales (x)	13.0x	9.6x
EV/ EBITDA (x)	36.1x	26.4x

Shareholding Pattern (%)

Promoters	48
FII's	27
Institutions	12
Public & Others	13

Relative Performance



Power investments to bolster growth

Jaiprakash Associates Limited (JAL) registered a reasonable growth in sales by 11.1% yoy to Rs. 8,620 mn backed by improved performance of the Hospitality and Construction segment. The Company has made significant investments in the Power and Cement sectors to strengthen its market presence. On a yoy basis, EBITDA increased 8.3% to Rs. 2,210 mn, though EBITDA margin declined 65 bps to 25.6% as a result of escalation in overall production costs. Higher other income and lower tax rate resulted in an increase in net profit by 15.6% yoy to Rs. 1,040 mn. Net profit margin improved 47 bps yoy from 11.6% to 12.1%.

JAL's recent initiatives to grow organically as well as inorganically, in the high growth businesses bode well for the Company's growth. Power, Real Estate & Hospitality, BOT projects are margin accretive businesses wherein the Company is building a niche for itself. The Company is expected to receive 2,500 hectares (approx. 269.1 mn sq ft) along the Taj Expressway for real estate development. The proposed listing of JP Power Venture that will have power assets of 5,000 MW in the next 5-7 years is expected to add significant value for the shareholders.

At the current price, the stock is trading at a P/E of 79.8x FY08E and 57.6x FY09E. We continue to hold a positive outlook for the Company. However, considering the recent upsurge in the stock price, we maintain Hold.

Key Figures (Standalone)

Quarterly Data	Q2'07	Q1'08	Q2'08	YoY%	QoQ%	H1'07	H1'08	YoY%
(Figures in Rs mn, except per share data)								
Net Sales	7,760	9,270	8,620	11.1%	(7.0)%	16,800	18,050	7.4%
EBITDA	2,040	2,390	2,210	8.3%	(7.5)%	4,240	4,750	12.0%
Net Profit	900	1,400	1,040	15.6%	(25.7)%	1,820	2,430	33.5%
Margins(%)								
EBITDA	26.3%	25.8%	25.6%			25.2%	26.3%	
NPM	11.6%	15.1%	12.1%			10.8%	13.5%	
Per Share Data (Rs.)								
EPS	0.8	1.2	0.9	14.5%	(25.8)%	1.6	2.1	32.7%

Cement sales volume and realisation likely to improve in the next quarter

High operating costs led to decline in EBITDA margin

Tax holiday for 10 years expected to lower effective tax rate and lead to improvement in bottomline

Result Highlights

JAL registered a sales growth of 11.1% yoy from Rs. 7,760 mn as a result of increased contribution from the Construction and Hospitality segment. Revenues from the Cement segment rose only 6.8% yoy to Rs. 4,560 mn as sales and production volumes were low during this quarter - affected by the monsoon season. Revenues from the Construction segment increased 13.4% yoy to Rs. 4,320 mn in comparison to the lackluster performance in the last quarter. In the Hospitality segment, JAL intends to develop 500 acre land in Noida named as Wish Town, which is likely to assist the sales growth in the short term.

On a yoy basis, though EBITDA increased by 8.3% to Rs. 2,210 mn, increase in overall production costs negatively impacted margin, resulting in a decline of 65 bps to 25.6%. EBIT for the quarter was Rs. 1,750 mn, while overall EBIT margin stood at 20.3% (down by 96 bps, yoy).

Though interest expenses increased 35.5% yoy to Rs. 840 mn, higher other income by 87.5% yoy to Rs. 600 mn led to the growth in net profit by 15.6% yoy to Rs. 1,040 mn. Net profit margin also improved by 47 bps to 12.1%. Other income included an interim dividend of Rs. 235.4 mn from its subsidiary, Jaiprakash Hydro-Power Ltd. Moreover, the Company will be enjoying tax holiday for 10 years on the commissioning of the Taj Expressway project. Hence, effective tax rate is likely to decline.

JAL has been awarded two hydro-power projects totalling 720 MW in Meghalaya. The Company is planning to invest Rs. 60 bn in these two projects. Jaiprakash Power Venture will hold 74% stake in the JV with Meghalaya Government. It will execute the power projects on BOT basis for 40 years. JAL intends to increase the total power production capacity to 4,585 MW in 5-7 years and will invest over Rs. 180 bn in the near term. The Company is also in talks with Aditya Birla Group to buy 500 MW Bina Power Company.

Key Events

- JAL split its equity share of Rs. 10 each into five equity shares of Rs. 2 each on Dec. 26, 2007.
- The Company was allotted Mandla north coal block in M.P. for its cement business.
- JAL plans to raise USD 400 mn (about Rs. 15.7 bn) through GDRs in the overseas markets. The board has also approved the issue of 50 mn convertible warrants to Jaypee Ventures Pvt. Ltd, a promoter group company, on a preferential basis, which would be convertible into equity shares of Rs. 2 each within 18 months.
- Jai Prakash Power Ventures, a subsidiary of JAL, is expected to file its draft prospectus to raise close to USD 1 bn, through fresh equity of 110 mn shares.
- JAL has won a 10-year contract worth Rs. 15 bn from F1 authority to build a F1 track in India.

Key Risks

Any unfavorable change in the Government policy towards power and infrastructure development, further escalation in operating costs, poor realisation in cement, and increase in the debt burden will have adverse effect on the topline and bottomline growth. Moreover, delay in the completion of power and E&C projects are also key risks to our rating.

Outlook

JAL intends to increase its power production capacity to 4,585 MW in 5-7 years. The Company has proposed investments of Rs. 180 bn in thermal and hydro power projects. It is also eyeing the 500 MW Bina Power Company of Aditya Birla Nuvo which is a coal based plant. The listing of

Largest hydropower producer in the India

With the increase in cement capacity to 25 MMT in 2010, JAL will be among the top five cement companies

Jaiprakash Power Ventures Ltd in the future, in which JAL has 84.3% stake, is likely to provide upside to the stock.

The Company aims to increase its cement capacity to 25 MMT by 2010 which will improve market share and also benefit JAL both internally and externally. Further, the allocation of coal blocks in Madhya Pradesh will enable JAL to reduce production costs and improve bottomline in the near term.

In the real estate segment, we expect the development of the 500 acre Wish Town project to complete till 2010 which in turn will boost topline growth. The proposed allotment of 2,500 hectares of land along the Taj Expressway, if completed on time, could be a tremendous value addition. However, we are skeptical regarding the timeframe within which the entire land would be allotted to JAL, post which the Company can make some concrete plans for real estate development. We do not foresee revenue generation from the land along the Taj Expressway in the medium term.

At the current price, the stock is trading at a P/E of 79.8x FY08E and 57.6x FY09E. We continue to hold a positive outlook for the Company. However, considering the recent upsurge in the stock price, we maintain Hold.

Key Figures (Consolidated)

Year to March	FY05	FY06	FY07	FY08E	FY09E	CAGR (%)
(Figures in Rs mn, except per share data) (FY07-09E)						
Net Sales	29,990	32,658	39,252	45,002	61,070	24.7%
EBITDA	8,668	9,104	14,976	16,246	22,230	21.8%
Net Profit	2,345	2,472	5,505	6,512	9,028	28.1%
Margins(%)						
EBITDA	28.9%	27.9%	38.2%	36.1%	36.4%	
NPM	7.8%	7.6%	14.0%	14.5%	14.8%	
Per Share Data (Rs.)						
EPS	2.3	6.1	5.1	5.9	8.2	27.1%
PER (x)	16.8x	15.5x	92.9x	79.8x	57.6x	

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