Company Flash

12 January 2007 | 7 pages

Jaiprakash (JAIA.BO)

Buy: Strong Quarter of Growth, Profits Up 82%

- Strong earnings growth — JPA's 3QFY07 PAT at Rs1.02bn up 82% YoY, was broadly in-line with CIR estimates of Rs1.04bn driven by a 545bps margin expansion on a 12% YoY sales growth.
- Cement is the key — Cement price realizations at Rs2900/tonne were up 41% YoY, aiding the 383% YoY growth in cement PBIT. Cement dispatches have been strong at 1.7mn tones, up 16% YoY, further aiding the growth.
- Construction revenues disappoint — Construction revenues were down 16% YoY primarily on account of slow progress on the Karcham Wangtoo project. Further PBIT margins at 21% were below our expectations of 26%. (An error of judgment on our part, as we expected it to be in-line with 2QFY07 margins, which were boosted by the completion of the Vishnuprayag project.)
- Taj Expressway construction tender out — The company has invited contractors for the construction of the Taj Expressway in a tender dated January 4, 2007, in the *Times of India* implying that the project is well and truly under way. Management expects allocation of the next 650 acres land parcel in Noida in the next 2 months.
- Maintain Buy/Low Risk — JPA is one of our top picks in the E&C space given the natural hedge of having both construction and cement businesses and a strong presence in real estate, hotels and ownership of power capacity in a power deficit nation.

Buy/Low Risk	**1L**
Price (11 Jan 07)	Rs707.05
Target price	Rs697.00
Expected share price return	-1.4%
Expected dividend yield	0.4%
Expected total return	**-1.0%**
Market Cap	Rs153,549M
	US$3,454M

Figure 1. JPA Statistical Abstract

Year to	Net Profit	FD EPS	EPS Growth	Cons. FD EPS	EPS Growth	P/E	Cons. P/E	EV / EBITDA	P / Book	ROE	ROCE
31-Mar	(Rs mills)	(Rs)	(%)	(x)	(%)	(x)	(x)	(x)	(x)	(%)	(%)
FY05A	2,076	10.66	10.7%	13.28	2.8%	66.4	53.3	27.9	10.2	18.2%	6.1%
FY06A	2,786	11.83	11.0%	13.78	3.7%	59.8	51.3	28.0	7.1	16.5%	5.7%
FY07E	3,822	16.23	37.2%	22.60	64.0%	43.6	31.3	21.1	6.2	16.6%	6.6%
FY08E	4,903	20.82	28.3%	27.19	20.3%	34.0	26.0	16.9	4.6	17.1%	7.7%
FY09E	7,141	30.33	45.7%	36.70	35.0%	23.3	19.3	11.9	3.4	18.3%	9.7%

Source: Citigroup Investment Research

Venkatesh Balasubramaniam[1]
+91-22-6631-9864
venkatesh.balasubramaniam@citigroup.com

Deepal Delivala[1]
+91-22-6631-9857
deepal.delivala@citigroup.com

Pankaj Sharma[1]
pankaj4.sharma@citigroup.com

See page 5 for Analyst Certification and important disclosures.

[1]Citigroup Global Market India Private Limited

Figure 2. JPA 3QFY07 Results

Year End Mar31 (Rsmn)	3QFY06	3QFY07	% YOY	3QFY07E
Sales	**7960**	**8910**	*12%*	**8984**
EBITDA	**1630**	**2310**	*42%*	**2246**
EBITDA Margin	**20.5%**	**25.9%**		**25.0%**
Depreciation	(380)	(430)	*13%*	(390)
EBIT	**1250**	**1880**	*50%*	**1856**
EBIT Margin	**15.7%**	**21.1%**		**20.7%**
Interest	(600)	(700)	*17%*	(670)
Other Income	240	400	*67%*	400
PBT	**890**	**1580**	*78%*	**1586**
PBT Margin	**11.2%**	**17.7%**		**17.7%**
Total Tax	(330)	(560)	*70%*	(539)
Tax Rate	*37.1%*	*35.4%*		*34.0%*
Recurring PAT	**560**	**1020**	*82.1%*	**1047**

Source: Citigroup Investment Research

Figure 3. Cement Sales and EBIT

	1QFY06	2QFY06	3QFY06	4QFY06	FY06	1QFY07	2QFY07	3QFY07
Volumes (mn tonnes)	1.44	1.24	1.47	1.78	5.93	1.57	1.52	1.71
Realizations (Rs/ton)	2,153	2,056	2,054	2,320	2,159	2,599	2,809	2,900
PBIT (Rs/ton)	361	242	197	425	315	669	750	850
Sales (Rsmn)	3,100	2,550	3,020	4,130	12,800	4,080	4,270	4950
PBIT (Rsmn)	520	300	290	757	1,866	1050	1140	1451

Source: Citigroup Investment Research

Figure 4. JPA 3QFY07 Segmental Details

	3QFY06	3QFY07	% YOY	3QFY07E
Revenues				
Cement	3040	4950	*63%*	4950
Construction	5100	4300	*-16%*	4874
Hospitality & Golf Course	60	80	*33%*	50
Unallocated	110	200	*82%*	100
Total	**8310**	**9530**	*15%*	**9974**
Less: Inter Segment	(110)	(220)		
Income from Ops	**8200**	**9310**	*14%*	**9974**
PBIT				
Cement	290	1400	*383%*	1451
Construction	1300	910	*-30%*	1267
Hospitality & Golf Course	0	10		0
Total	**1590**	**2320**	*46%*	**2718**
Interest	(600)	(700)		(670)
Unallocables	(100)	(40)		(250)
PBT	**890**	**1580**	*78%*	**1798**
PBIT Margin				
Cement	9.5%	28.3%	1874	29.3%
Construction	25.5%	21.2%	-433	26.0%
Hospitality & Golf Course	0.0%	12.5%		0.0%

Source: Citigroup Investment Research

Jaiprakash

Company description

JPA is a conglomerate with interests in engineering and construction (hydel power, river valley & roads), cement, hydroelectric build-own-operate-transfer (BOOT) projects, hotels and real estate.

Investment thesis

We rate JPA as Buy/Low Risk (1L) with a target price of Rs697. Driven by a strong hydroelectric capex tail wind, JPA's construction business fundamentals look solid with an order backlog of Rs70.5bn. With its status as the leading hydroelectric E&C and EPC contractor in the country, JPA looks poised to exploit the vast hydroelectric E&C opportunity over the next decade, in our view. The cement business should provide the growth kicker, with JPA increasing capacity to 19.7 MMTPA by FY09E-10E. Furthermore, strong cement pricing, captive power and improvement in operations and logistics should aid in a 600-700bp expansion for FY06-09E. However, we believe JPA's trump cards are (a) the recent award of the Taj Expressway project that provides a civil contract of Rs60bn, a sweetener of 6250 acres of land and a 36-year BOT contract; and (b) the portfolio of hydroelectric BOOT projects that provides significant earnings stability and upside over the longer term.

Valuation

Our target price is Rs697. We value JPA using a sum of the parts valuation incorporating the following:

- Construction business: Using an FY08E EV/EBITDA of 10x at a 30% discount to L&T and BHEL, as despite having higher EBITDA margins, JPA's EBITDA is growing at a much slower pace.

- Existing 7 MMTPA of capacity: Using an FY08E EV/tonne of US$150 at a discount to front line cement majors.

- 3 MMTPA HP Plant + 1 MMTPA Panipat grinding unit: Using an FY08E EV/tonne of US$100 at a discount to existing capacity as this would be commissioned in FY08E.

- 1.5 MMTPA Siddhi plant: At BV of investments till FY08E as the plant would be commissioned in FY09E.

- Hydel BOOT projects: Despite JPA partly exiting Baspa II at a 3.2x P/BV, in the interest of being conservative, we value the stake in Baspa II at 2.5x P/BV (higher than that used previously to factor in the Karcham Wangtoo evacuation facilities to be executed through this company), Vishnuprayag at a P/BV of 2.0x and Karcham Wangtoo at BV.

- Jaypee Greens: A 20% discount to Discounted Cash Flow (DCF) using a discount rate of 15% to factor in commercial risks.

- Jaypee Hotels: At a 20% holding company discount to the market value.

- Taj Expressway: We use scenario 3 from our analysis and use a 20% discount to factor in project, development and commercial risks.

Based on a sum-of-the-parts valuation, we set our target price at Rs697.

At our target price the parent business would trade at a P/E multiple of 21.9x FY08E, which is well supported by an EPS CAGR of 37% for FY06-09E.

Risk

We rate JPA as Low Risk, which differs from the Medium Risk rating assigned by our quantitative risk-rating system. This is primarily because JPA's E&C order book of Rs70.5bn implies sales coverage of 3.5x FY06, providing earnings visibility for the medium term. Strong cement demand growth in JPA's natural zone of operation would lead to incremental volumes from its capacity expansion being easily absorbed.

The key risk factors to our target price include:

1. The construction business is subject to project risks;
2. The construction business is sensitive to economic variables;
3. The cement business is subject to demand-supply dynamics;
4. Further delays in the Taj Expressway project;
5. Slowdown in India's hydroelectric power capex;
6. Development and commercial risks in developing and selling the land associated with the Taj Expressway project; and
7. Substantial fall in real estate prices in the northern parts of India.

Analyst Certification Appendix A-1

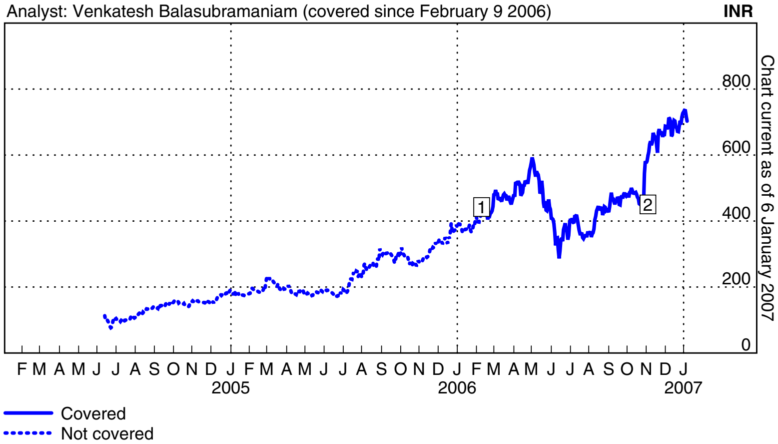
We, Venkatesh Balasubramaniam and Deepal Delivala, research analysts and the authors of this report, hereby certify that all of the views expressed in this research report accurately reflect our personal views about any and all of the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

IMPORTANT DISCLOSURES

Jaiprakash Associates Ltd (JAIA.BO)

Ratings and Target Price History - Fundamental Research

Analyst: Venkatesh Balasubramaniam (covered since February 9 2006)



#	Date	Rating	Target Price	Closing Price
1:	9 Feb 06	1L	557.00	NA
2:	3 Nov 06	1L	*697.00	597.15

*Indicates change.

Citigroup Global Markets Inc. or its affiliates beneficially owns 1% or more of any class of common equity securities of Jaiprakash Associates Ltd. This position reflects information available as of the prior business day.

Analysts' compensation is determined based upon activities and services intended to benefit the investor clients of Citigroup Global Markets Inc. and its affiliates ("the Firm"). Like all Firm employees, analysts receive compensation that is impacted by overall firm profitability, which includes revenues from, among other business units, the Private Client Division, Institutional Sales and Trading, and Investment Banking.

For important disclosures (including copies of historical disclosures) regarding the companies that are the subject of this Citigroup Investment Research product ("the Product"), please contact Citigroup Investment Research, 388 Greenwich Street, 29th Floor, New York, NY, 10013, Attention: Legal/Compliance. In addition, the same important disclosures, with the exception of the Valuation and Risk assessments and historical disclosures, are contained on the Firm's disclosure website at www.citigroupgeo.com. Private Client Division clients should refer to www.smithbarney.com/research. Valuation and Risk assessments can be found in the text of the most recent research note/report regarding the subject company. Historical disclosures (for up to the past three years) will be provided upon request.

Citigroup Investment Research Ratings Distribution

Data current as of 31 December 2006	Buy	Hold	Sell
Citigroup Investment Research Global Fundamental Coverage (3106)	43%	41%	15%
% of companies in each rating category that are investment banking clients	45%	41%	34%
India -- Asia Pacific (118)	58%	14%	28%
% of companies in each rating category that are investment banking clients	48%	50%	39%

Guide to Fundamental Research Investment Ratings:

Citigroup Investment Research's stock recommendations include a risk rating and an investment rating.

Risk ratings, which take into account both price volatility and fundamental criteria, are: Low (L), Medium (M), High (H), and Speculative (S).

Investment ratings are a function of Citigroup Investment Research's expectation of total return (forecast price appreciation and dividend yield within the next 12 months) and risk rating.

For securities in emerging markets (Asia Pacific, Emerging Europe/Middle East/Africa, and Latin America), investment ratings are: Buy (1) (expected total return of 15% or more for Low-Risk stocks, 20% or more for Medium-Risk stocks, 30% or more for High-Risk stocks, and 40% or more for Speculative stocks); Hold (2) (5%-15% for Low-Risk stocks, 10%-20% for Medium-Risk stocks, 15%-30% for High-Risk stocks, and 20%-40% for Speculative stocks); and Sell (3) (5% or less for Low-Risk stocks, 10% or less for Medium-Risk stocks, 15% or less for High-Risk stocks, and 20% or less for Speculative stocks).

Investment ratings are determined by the ranges described above at the time of initiation of coverage, a change in investment and/or risk rating, or a change in target price (subject to limited management discretion). At other times, the expected total returns may fall outside of these ranges because of market price movements and/or other short-term volatility or trading patterns. Such interim deviations from specified ranges will be permitted but will become subject to review by Research Management. Your decision to buy or sell a security should be based upon your personal investment objectives and should be made only after evaluating the stock's expected performance and risk.

OTHER DISCLOSURES

The subject company's share price set out on the front page of this Product is quoted as at 11 January 2007 04:00 PM on the issuer's primary market.

Citigroup Global Markets Inc. or its affiliates beneficially owns 5% or more of any class of common equity securities of Jaiprakash Associates Ltd.

Citigroup Global Markets Inc. or its affiliates holds a long position in any class of common equity securities of Jaiprakash Associates Ltd.

For securities recommended in the Product in which the Firm is not a market maker, the Firm is a liquidity provider in the issuers' financial instruments and may act as principal in connection with such transactions. The Firm is a regular issuer of traded financial instruments linked to securities that may have been recommended in the Product. The Firm regularly trades in the securities of the subject company(ies) discussed in the Product. The Firm may engage in securities transactions in a manner inconsistent with the Product and, with respect to securities covered by the Product, will buy or sell from customers on a principal basis.

Securities recommended, offered, or sold by the Firm: (i) are not insured by the Federal Deposit Insurance Corporation; (ii) are not deposits or other obligations of any insured depository institution (including Citibank); and (iii) are subject to investment risks, including the possible loss of the principal amount invested. Although information has been obtained from and is based upon sources that the Firm believes to be reliable, we do not guarantee its accuracy and it may be incomplete and condensed. Note, however, that the Firm has taken all reasonable steps to determine the accuracy and completeness of the disclosures made in the Important Disclosures section of the Product. The Firm's research department has received assistance from the subject company(ies) referred to in this Product including, but not limited to, discussions with management of the subject company(ies). Firm policy prohibits research analysts from sending draft research to subject companies. However, it should be presumed that the author of the Product has had discussions with the subject company to ensure factual accuracy prior to publication. All opinions, projections and estimates constitute the judgment of the author as of the date of the Product and these, plus any other information contained in the Product, are subject to change without notice. Prices and availability of financial instruments also are subject to change without notice. Notwithstanding other departments within the Firm advising the companies discussed in this Product, information obtained in such role is not used in the preparation of the Product. Although Citigroup Investment Research does not set a predetermined frequency for publication, if the Product is a fundamental research report, it is the intention of Citigroup Investment Research to provide research coverage of the/those issuer(s) mentioned therein, including in response to news affecting this issuer, subject to applicable quiet periods and capacity constraints. The Product is for informational purposes only and is not intended as an offer or solicitation for the purchase or sale of a security. Any decision to purchase securities mentioned in the Product must take into account existing public information on such security or any registered prospectus.

Investing in non-U.S. securities, including ADRs, may entail certain risks. The securities of non-U.S. issuers may not be registered with, nor be subject to the reporting requirements of the U.S. Securities and Exchange Commission. There may be limited information available on foreign securities. Foreign companies are generally not subject to uniform audit and reporting standards, practices and requirements comparable to those in the U.S. Securities of some foreign companies may be less liquid and their prices more volatile than securities of comparable U.S. companies. In addition, exchange rate movements may have an adverse effect on the value of an investment in a foreign stock and its corresponding dividend payment for U.S. investors. Net dividends to ADR investors are estimated, using withholding tax rates conventions, deemed accurate, but investors are urged to consult their tax advisor for exact dividend computations. Investors who have received the Product from the Firm may be prohibited in certain states or other jurisdictions from purchasing securities mentioned in the Product from the Firm. Please ask your Financial Consultant for additional details. Citigroup Global Markets Inc. takes responsibility for the Product in the United States. Any orders by US investors resulting from the information contained in the Product may be placed only through Citigroup Global Markets Inc.

The Citigroup legal entity that takes responsibility for the production of the Product is the legal entity which the first named author is employed by. The Product is made available in Australia to wholesale clients through Citigroup Global Markets Australia Pty Ltd. (ABN 64 003 114 832 and AFSL No. 240992) and to retail clients through Citigroup Wealth Advisors Pty Ltd. (ABN 19 009 145 555 and AFSL No. 240813), Participants of the ASX Group and regulated by the Australian Securities & Investments Commission. Citigroup Centre, 2 Park Street, Sydney, NSW 2000. The Product is made available in Australia to Private Banking wholesale clients through Citigroup Pty Limited (ABN 88 004 325 080 and AFSL 238098). Citigroup Pty Limited provides all financial product advice to Australian Private Banking wholesale clients through bankers and relationship managers. If there is any doubt about the suitability of investments held in Citigroup Private Bank accounts, investors should contact the Citigroup Private Bank in Australia. Citigroup companies may compensate affiliates and their representatives for providing products and services to clients. If the Product is being made available in certain provinces of Canada by Citigroup Global Markets (Canada) Inc. ("CGM Canada"), CGM Canada has approved the Product. Citigroup Place, 123 Front Street West, Suite 1100, Toronto, Ontario M5J 2M3. The Product may not be distributed to private clients in Germany. The Product is distributed in Germany by Citigroup Global Markets Deutschland AG & Co. KGaA, which is regulated by Bundesanstalt fuer Finanzdienstleistungsaufsicht (BaFin). Frankfurt am Main, Reuterweg 16, 60323 Frankfurt am Main. If the Product is made available in Hong Kong by, or on behalf of, Citigroup Global Markets Asia Ltd., it is attributable to Citigroup Global Markets Asia Ltd., Citibank Tower, Citibank Plaza, 3 Garden Road, Hong Kong. Citigroup Global Markets Asia Ltd. is regulated by Hong Kong Securities and Futures Commission. If the Product is made available in Hong Kong by The Citigroup Private Bank to its clients, it is attributable to Citibank N.A., Citibank Tower, Citibank Plaza, 3 Garden Road, Hong Kong. The Citigroup Private Bank and Citibank N.A. is regulated by the Hong Kong Monetary Authority. The Product is made available in India by Citigroup Global Markets India Private Limited, which is regulated by Securities and Exchange Board of India. Bakhtawar, Nariman Point, Mumbai 400-021. If the Product was prepared by Citigroup Investment Research and distributed in Japan by Nikko Citigroup Ltd., it is being so distributed under license. Nikko Citigroup Limited is regulated by Financial Services Agency, Securities and Exchange Surveillance Commission, Japan Securities Dealers Association, Tokyo Stock Exchange and Osaka Securities Exchange. Akasaka Park Building, 2-20, Akasaka 5-chome, Minato-ku, Tokyo 107-6122. The Product is made available in Korea by Citigroup Global Markets Korea Securities Ltd., which is regulated by Financial Supervisory Commission and the Financial Supervisory Service. Hungkuk Life Insurance Building, 226 Shinmunno 1-GA, Jongno-Gu, Seoul, 110-061. The Product is made available in Malaysia by Citigroup Global Markets Malaysia Sdn Bhd, which is regulated by Malaysia Securities Commission. Menara Citibank, 165 Jalan Ampang, Kuala Lumpur, 50450. The Product is made available in Mexico by Acciones y Valores Banamex, S.A. De C. V., Casa de Bolsa, which is regulated by Comision Nacional Bancaria y de Valores. Reforma 398, Col. Juarez, 06600 Mexico, D.F. In New Zealand the Product is made available through Citigroup Global Markets New Zealand Ltd., a Participant of the New Zealand Exchange Limited and regulated by the New Zealand Securities Commission. Level 19, Mobile on the Park, 157 lambton Quay, Wellington. The Product is made available in Poland by Dom Maklerski Banku Handlowego SA an indirect subsidiary of Citigroup Inc., which is regulated by Komisja Papierów Wartosciowych i Gield. Bank Handlowy w Warszawie S.A. ul. Senatorska 16, 00-923 Warszawa. The Product is made available in the Russian Federation through ZAO Citibank, which is licensed to carry out banking activities in the Russian Federation in accordance with the general banking license issued by the Central Bank of the Russian Federation and brokerage activities in accordance with the license issued by the Federal Service for Financial Markets. Neither the Product nor any information contained in the Product shall be considered as advertising the securities mentioned in this report within the territory of the Russian Federation or outside the Russian Federation. The Product does not constitute an appraisal within the meaning of the Federal Law of the Russian Federation of 29 July 1998 No. 135-FZ (as amended) On Appraisal Activities in the Russian Federation. 8-10 Gasheka Street, 125047 Moscow. The Product is made available in Singapore through Citigroup Global Markets Singapore Pte. Ltd., a Capital Markets Services Licence holder, and regulated by Monetary Authority of Singapore. 1 Temasek Avenue, #39-02 Millenia Tower, Singapore 039192. The Product is made available by The Citigroup Private Bank in Singapore through Citibank, N.A., Singapore branch, a licensed bank in Singapore that is regulated by Monetary Authority of Singapore. Citigroup Global Markets (Pty) Ltd. is incorporated in the Republic of South Africa (company registration number 2000/025866/07) and its registered office is at 145 West Street, Sandton, 2196, Saxonwold. Citigroup Global Markets (Pty) Ltd. is regulated by JSE Securities Exchange South Africa, South African Reserve Bank and the Financial Services Board. The investments and services contained herein are not available to private customers in South Africa. The Product is made available in Taiwan through Citigroup Global Markets Inc. (Taipei Branch), which is regulated by Securities & Futures Bureau. No portion of the report may be reproduced or quoted in Taiwan by the press or any other person. No. 8 Manhattan Building, Hsin Yi Road, Section 5, Taipei 100, Taiwan. The Product is made available in Thailand through Citicorp Securities (Thailand) Ltd., which is regulated by the Securities and Exchange Commission of Thailand. 18/F, 22/F and 29/F, 82 North Sathorn Road, Silom, Bangrak, Bangkok 10500, Thailand. The Product is made available in United Kingdom by Citigroup Global Markets Limited, which is authorised and regulated by Financial Services Authority. This material may relate to investments or services of a person outside of the UK or to other matters which are not regulated by the FSA and further details as to where this may be the case are available upon request in respect of this material. Citigroup Centre, Canada Square, Canary Wharf, London, E14 5LB. The Product is made available in United States by Citigroup Global Markets Inc, which is regulated by NASD, NYSE and the US Securities and Exchange Commission. 388 Greenwich Street, New York, NY 10013. Unless specified to the contrary, within EU Member States, the Product is made available by Citigroup Global Markets Limited, which is regulated by Financial Services Authority. Many European regulators require that a firm must establish, implement and make available a policy for managing conflicts of interest arising as a result of publication or distribution of investment research. The policy applicable to Citigroup Investment Research's Products can be found at www.citigroupgeo.com. Compensation of equity research analysts is determined by equity research management and Citigroup's senior management and is not linked to specific transactions or recommendations. The Product may have been distributed simultaneously, in multiple formats, to the Firm's worldwide institutional and retail customers. The Product is not to be construed as providing investment services in any jurisdiction where the provision of such services would be illegal. Subject to the nature and contents of the Product, the investments described therein are subject to fluctuations in price and/or value and investors may get back less than originally invested. Certain high-volatility investments can be subject to sudden and large falls in value that could equal or exceed the amount invested. Certain investments contained in the Product may have tax implications for private customers whereby levels and basis of taxation may be subject to change. If in doubt, investors should seek advice from a tax adviser. Advice in the Product has been prepared without taking account of the objectives, financial situation or needs of any particular investor. Accordingly, investors should, before acting on the advice, consider the appropriateness of the advice, having regard to their objectives, financial situation and needs.

ADDITIONAL INFORMATION IS AVAILABLE UPON REQUEST