

## JAIPRAKASH POWER VENTURES LTD.

### Strong operating performance in 1Q FY13

**1Q FY13 pretax profit was up 135% and marginally ahead of our estimates. The PAT beat was though higher, led by lower taxes in this quarter. Revenue growth of 98% y/y was driven by contribution from complete commissioning of Karcham Wangtoo. Management highlighted that generation would have been higher than reported numbers by 30% had the monsoons been on track. Karcham Wangtoo (1GW) generated ~1.3bn units in June quarter and will continue to sell power at merchant rates till the PPA dispute with PTC is resolved. We maintain our 1-OW rating.**

**Sales up on higher generation and merchant tariffs:** Total generation in 1Q FY13 was up ~56% y/y (as per CEA data) with Karcham Wangtoo generation up ~340% y/y. Management highlighted that generation was lower than their plan by ~30% due to weak monsoons. Merchant realisations at Karcham Wangtoo were at an average of ~Rs3.7 per unit with some contracts during the quarter as high as Rs4.0/unit.

**Update on PPA dispute with PTC:** Following the Delhi High court directive in favour of PTC, which directed JPVL to fix tariff for ~700MW as per CERC, management has filed a revision petition in the court. We believe that the case will take a much longer period to resolve. We note that even if KWHP converts to regulated PPA(for 700MW), the impact on near term profitability would likely be limited as we calculate that regulated tariff would be ~Rs3.6/unit, similar to that of merchant rates and JPVL will continue to have some capacity on merchants.

**Maintain 1-OW:** Management highlights that the hydrological risk remains given the weak monsoons (the hydro plants of JPVL are run of the river) and could continue to impact generation volumes compared with what can be theoretically achieved. PAF continues to be 99.9%. Although weak monsoons may impact generation in 2Q FY13, we expect commissioning of 250MW thermal capacity (Bina Unit-1) to support revenues in 2H FY13. Moreover, with Karcham Wangtoo getting registered with UNFCCC under the Clean Development Mechanism (CDM), the company also expects ~800-1000mn of carbon credits each year, which are currently not in our estimates.

#### JPPO.NS: Financial and Valuation Metrics INR

FY Mar	2010	2011	2012	2013	2014
EPS	1.15A	0.62A	1.53E	2.36E	3.20E
Previous EPS	1.15A	0.62A	1.53E	2.36E	3.20E
Consensus EPS	N/A	N/A	N/A	N/A	N/A
P/E	29.3	54.9	22.1	14.3	10.6

Source: Barclays Research.  
Consensus numbers are from Thomson Reuters

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PLEASE SEE ANALYST(S) CERTIFICATION(S) AND IMPORTANT DISCLOSURES BEGINNING ON PAGE 4.

Stock Rating	<b>1-OVERWEIGHT</b> Unchanged
Sector View	<b>2-NEUTRAL</b> Unchanged
Price Target	<b>INR 43.00</b> Unchanged

Price (20-Jul-2012)	INR 33.80
Potential Upside/Downside	+27%
Tickers	JPVL IN / JPPO.NS

Market Cap (INR mn)	89111
Shares Outstanding (mn)	2624.76
Free Float (%)	11.89
52 Wk Avg Daily Volume (mn)	0.3
Dividend Yield (%)	N/A
Return on Equity TTM (%)	3.79
Current BVPS (INR)	0.00

Source: FactSet Fundamentals

Price Performance	Exchange-BSE
52 Week range	INR 49.70-31.25



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## COMPANY SNAPSHOT

Jaiprakash Power Ventures Ltd.

Asia ex-Japan Power &amp; Utilities

Income statement (INRmn)	2011A	2012E	2013E	2014E	CAGR
Revenue	6,987	15,757	28,025	40,149	79.1%
EBITDA (adj)	6,149	14,161	22,540	28,982	67.7%
EBIT (adj)	5,200	11,849	18,792	23,966	66.4%
Pre-tax income (adj)	2,136	4,619	8,734	11,745	76.5%
Net income (adj)	1,618	4,007	6,191	8,387	73.1%
EPS (adj) (INR)	0.62	1.53	2.36	3.20	73.1%
EPS (reported) (INR)	0.62	1.53	2.36	3.20	73.1%
Diluted shares (mn)	2,625	2,625	2,625	2,625	0.0%
DPS (INR)	0.00	0.00	0.00	0.00	N/A

Stock Rating	<b>1-OVERWEIGHT</b>
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## Investment case

**Why a 1-Overweight?** Hydro portfolio of 1.7GW provides support to valuations while 73% of the upcoming thermal capacity of 3.8GW has fuel pass-through clauses. In addition, increase in merchant prices will further enhance valuations.

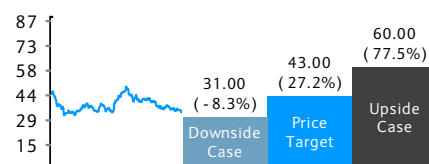
Upside case **INR 60.00**

Availability of captive coal for Nigrie and Bina and linkage coal fro Bara would add Rs9 to the value, better merchant realizations of Rs0.5/Kwh Rs3 and 5% better heat rate Rs5

Downside case **INR 31.00**

Unavailability of merchant coal for merchant power will lead to a decline of Rs12 in the stock value.

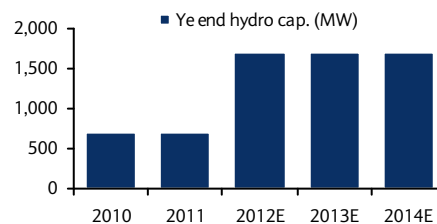
## Upside/downside scenarios



21-Jul-11 20-Jul-12

Source: Barclays Research

## Hydro capacity to reach ~1.7GW by FY14



Source: Company data, Barclays Research

## Margin and return data

					Average
EBITDA (adj) margin (%)	88.0	89.9	80.4	72.2	82.6
EBIT (adj) margin (%)	74.4	75.2	67.1	59.7	69.1
Pre-tax (adj) margin (%)	30.6	29.3	31.2	29.3	30.1
Net (adj) margin (%)	23.2	25.4	22.1	20.9	22.9
ROIC (%)	2.8	4.7	5.4	5.7	4.6
ROA (%)	0.9	2.0	2.4	2.7	2.0
ROE (%)	3.1	7.3	10.2	12.1	8.2

## Balance sheet and cash flow (INRmn)

					CAGR
Net PP&E	125,323	194,252	241,112	291,576	32.5%
Total net assets	197,921	233,337	271,652	324,864	18.0%
Capital employed	188,903	217,927	261,866	314,131	18.5%
Shareholders' equity	51,664	54,588	60,779	69,165	10.2%
Net debt/(funds)	111,177	148,224	193,569	236,446	28.6%
Cash flow from operations	17,027	38,614	-6,403	24,824	13.4%
Capital expenditure	-83,101	-47,139	-50,608	-55,480	N/A
Free cash flow	-14,363	-13,524	-7,775	812	N/A
Pre-dividend FCF	-14,363	-13,524	-7,775	812	N/A

## Valuation and leverage metrics

					Average
P/E (adj) (x)	54.9	22.1	14.3	10.6	25.5
P/E (reported) (x)	54.9	22.1	14.3	10.6	25.5
EV/EBITDA (adj) (x)	33.1	17.1	12.7	11.4	18.6
EV/EBIT (adj) (x)	39.2	20.4	15.3	13.8	22.2
P/BV (x)	1.7	1.6	1.5	1.3	1.5
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0
Total debt/capital (%)	258.3	288.4	320.8	345.1	303.1
Net debt/EBITDA (adj) (x)	2.2	2.7	3.2	3.4	2.9

## Selected operating metrics

Payout ratio (%)	0.0	0.0	0.0	0.0
Interest cover (x)	1.2	1.4	1.7	1.8
Regulated (%)	100.0	51.2	41.2	41.2

Source: Company data, Barclays Research

Note: FY End Mar

## Strong 1Q FY13 from JPVL

Figure 1: JPVL – 1Q FY13 results

Rs mn	Jun-11	Mar-12	Jun-12	QoQ	YoY	Jun-12E	A/E
Income from operations	2,753	2,938	5,454	86%	98%	6,010	0.91
EBITDA	2,467	2,439	4,901	101%	99%	4,999	0.98
Depreciation	355	706	674	-5%	90%	710	0.95
Other Income	87	200	91	-55%	5%	200	0.46
Finance Costs	1,330	2,426	2,278	-6%	71%	2,468	0.92
PBT	869	-492	2,040	nm	135%	2,021	1.01
Taxes	173	-424	210	nm	21%	404	0.52
PAT	696	-68	1,830	nm	163%	1,617	1.13

Source: Company data, Barclays Research

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Jaiprakash Power Ventures Ltd. (JPPO.NS, 20-Jul-2012, INR 33.80), 1-Overweight/2-Neutral

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**1-Overweight** - The stock is expected to outperform the unweighted expected total return of the sector coverage universe over a 12-month investment horizon.

**2-Equal Weight** - The stock is expected to perform in line with the unweighted expected total return of the sector coverage universe over a 12-month investment horizon.

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Jaiprakash Power Ventures Ltd. (JPPO.NS)

NTPC Ltd. (NTPC.NS)

Reliance Power Ltd. (RPOW.NS)

Tata Power Co., Ltd. (TTPW.NS)

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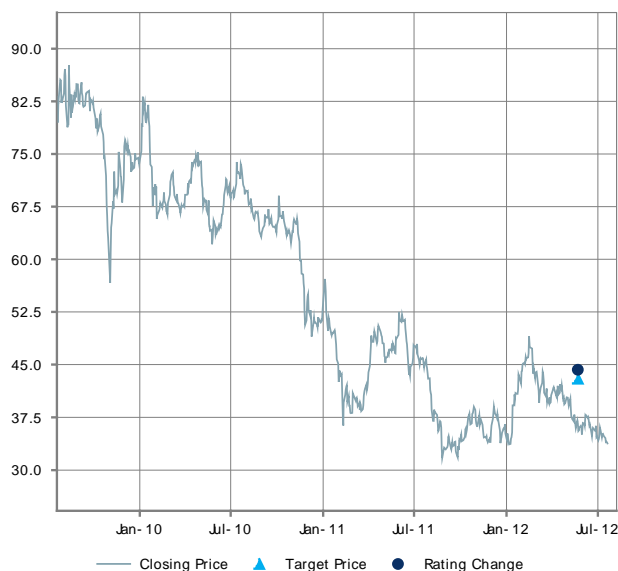
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**Jaiprakash Power Ventures Ltd. (JPVL IN / JPPO.NS)**  
**INR 33.80 (20-Jul-2012)**

 Stock Rating  
**1-OVERWEIGHT**

 Sector View  
**2-NEUTRAL**
**Rating and Price Target Chart - INR (as of 20-Jul-2012)**

Currency=INR


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**Valuation Methodology:** We value JPVL using SOTP based methodology at Rs43 per share. We value the individual projects on DCF using discount rate of 14-16%. While we do not value the newer hydro projects of JPVL that are in the planning stages, we take into account impact of treasury shares and also envisage equity funding gap.

**Risks which May Impede the Achievement of the Barclays Research Price Target:** Recently management announced plans to venture into the cement business to utilise the ash generated from its upcoming coal-based power plants. Such moves at unrelated diversification could impact the stock valuations negatively, in our view. JPVL's valuation is very sensitive to merchant tariffs. Any significant correction in short term/merchant tariffs could impact valuations negatively. Mining approvals at Amelia (N) and Dongri Tal are still pending. Any significant delays here could also show negatively on valuation. Any proposal of water cess in Himachal Pradesh could impact the Karcham Wangtoo projects and the merchant part of our valuation, where such cost is not considered a pass-through. JPVL has a bullet payment of Rs15bn pending in 4QFY13, the financing for which JPVL still needs to identify. This bullet payment could become an overhang on the stock. Any adverse move in the interest rate or risk free rate could impact our valuation negatively.

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